



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY**

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**KINDRED NURSING AND REHABILITATION –  
SMITH COUNTY  
CARTHAGE, TENNESSEE**

**Cost Report for the Period  
January 1, 2013, Through December 31, 2013;  
Resident Days for the Period  
July 1, 2012, Through December 31, 2013;  
and Resident Accounts for the Period  
January 1, 2011, Through October 21, 2014**

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**Justin P. Wilson, Comptroller**



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

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June 11, 2015

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 examination of the Medicaid cost report of Kindred Nursing and Rehabilitation – Smith County, in Carthage, Tennessee, for the period January 1, 2013, through December 31, 2013; resident days for the period July 1, 2012, through December 31, 2013; and resident accounts for the period January 1, 2011, through October 21, 2014.

Sincerely,

Deborah V. Loveless, CPA  
Director

DVL/pn  
15/303

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report  
**Kindred Nursing and Rehabilitation – Smith County**  
Carthage, Tennessee  
Cost Report for the Year Ended  
January 1, 2013, Through December 31, 2013;  
Resident Days for the Period  
July 1, 2012, Through December 31, 2013;  
and Resident Accounts for the Period  
January 1, 2011, Through October 21, 2014

## FINDINGS RECOMMENDING MONETARY REFUNDS

### **Residents Inappropriately Charged for Covered Services**

Kindred Nursing and Rehabilitation – Smith County has inappropriately charged Medicaid residents' trust fund accounts for haircuts, a Medicaid-covered service. As a result of the inappropriate charges, the facility should reimburse 59 Medicaid residents a total of \$2,711 (page 5).

### **Improper Management of Credit Balances**

Kindred Nursing and Rehabilitation – Smith County failed to ensure that credit balances on the accounts of deceased and discharged residents are promptly reported and that corrected claims are submitted. An accounts receivable unrefunded credit balance of \$73.86 due to the Medicaid Program remains on the account of one former resident of the facility (page 6).

**Kindred Nursing and Rehabilitation – Smith County  
Carthage, Tennessee  
Cost Report for the Period  
January 1, 2013, Through December 31, 2013;  
Resident Days for the Period  
July 1, 2012, Through December 31, 2013;  
and Resident Accounts for the Period  
January 1, 2011, Through October 21, 2014**

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**TABLE OF CONTENTS**

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	<u>Page</u>
<b>INTRODUCTION</b>	1
Purpose and Authority of the Examination	1
Background	1
Prior Examination Findings	2
Scope of the Examination	2
<b>INDEPENDENT ACCOUNTANT’S REPORT</b>	3
<b>FINDINGS AND RECOMMENDATIONS</b>	5
1. Residents Inappropriately Charged for Covered Services	5
2. Improper Management of Credit Balances	6
Summary of Monetary Findings and Recommendations	7

**Kindred Nursing and Rehabilitation – Smith County  
Carthage, Tennessee  
Cost Report for the Period  
January 1, 2013, Through December 31, 2013;  
Resident Days for the Period  
July 1, 2012, Through December 31, 2013;  
and Resident Accounts for the Period  
January 1, 2011, Through October 21, 2014**

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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.

Kindred Nursing and Rehabilitation – Smith County, in Carthage, Tennessee, provides both NF-1 and NF-2 services. The facility is owned and operated by Kindred Nursing Centers Limited Partnership, located in Louisville, Kentucky. The managers are as follows:

Joseph L. Landenwich  
Stephen Cunanan  
Douglas L. Curnutte

During the examination period, the facility maintained 128 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 46,720 available bed days, the facility reported 24,159 for Medicaid NF-1 residents and 2,192 for Medicaid NF-2 residents for the year ended December 31, 2013. Also, the facility reported total operating expenses of \$7,719,970 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 (744-0438)</u>	<u>Level II NF (044-5172)</u>
July 1, 2012, through June 30, 2013	\$146.15	\$162.22
July 1, 2013, through June 30, 2014	\$148.24	\$175.21

**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, which are 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 30, 2014**

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 30, 2014, that Kindred Nursing and Rehabilitation – Smith County complied with the following requirements:

- Income and expenses reported on the "Medicaid Nursing Facility Level 1 Cost Report" for the fiscal year ended December 31, 2013, are reasonable, allowable, and in accordance with state and federal rules, regulations, and reimbursement principles.
- Resident days reported on the cost report have been counted in accordance with state regulations. Medicaid resident days billed to the state from July 1, 2012, through December 31, 2013, when residents were hospitalized or on therapeutic leave are in accordance with the bed hold rule.
- Charges to residents and charges to residents' personal funds from January 1, 2011, through October 21, 2014, 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 Kindred Nursing and Rehabilitation – Smith County'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 Kindred Nursing and Rehabilitation – Smith County's compliance with specified requirements.

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

- residents inappropriately charged for covered services, and
- improper management of credit balances.

In our opinion, except for the instances of material noncompliance described above, Kindred Nursing and Rehabilitation – Smith County complied with, in all material respects, the aforementioned requirements for income and expenses reported on the Medicaid cost report for the period January 1, 2013, through December 31, 2013; for resident days for the period July 1, 2012, through December 31, 2013; and for resident accounts for the period January 1, 2011, through October 21, 2014.

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

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## FINDINGS AND RECOMMENDATIONS

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### 1. Residents Inappropriately Charged for Covered Services

#### Finding

Kindred Nursing and Rehabilitation – Smith County has inappropriately charged Medicaid residents’ trust fund accounts for Medicaid-covered services. From January 1, 2011, through October 20, 2014, the facility inappropriately charged 59 residents for basic haircuts.

Chapter 1200-8-6-.06(4)(q) of the *Rules of Tennessee Department of Health* states, in regard to basic services, “Residents shall have shampoos, haircuts, and shaves as needed or desired.”

As a result of the inappropriate charges for basic haircuts, the resident fund accounts for Medicaid residents have been incorrectly charged \$2,711.00 for Medicaid-covered services.

#### Recommendation

Kindred Nursing and Rehabilitation – Smith County should not charge Medicaid residents for covered services. The facility should reimburse the 59 Medicaid residents or their authorized representatives a total of \$2,711.00. In the future, the facility should provide covered services to all Medicaid residents without charge.

#### Management’s Comment

Management concurs and has resolved the issue.

#### Auditor’s Comment

As of May 22, 2015, evidence has been provided to the auditor that 44 of the 59 Medicaid residents have been reimbursed.

## **2. Improper Management of Credit Balances**

### **Finding**

Kindred Nursing and Rehabilitation – Smith County 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 did not provide evidence of attempts to notify the Medicaid Program to recoup credit balances and did not maintain evidence that a former resident or their authorized representatives were notified of refunds due them.

Section 6402 of the Affordable Care Act contains new obligations for health care providers regarding reporting and returning overpayments from the Bureau of TennCare or one of its contractors. Overpayments that are not returned within 60 days from the date the overpayment was identified can trigger a liability under the False Claims Act. The overpayment will be considered an “obligation” as this term is identified in Title 31, *United States Code*, Section 3729(b)(3). The False Claims Act subjects a provider to a fine and treble damages if it knowingly conceals or knowingly and improperly avoids or decreases an obligation to pay money to the federal government.

Section 66-29-113(a), *Tennessee Code Annotated*, states “Every person holding funds or other property, tangible or intangible, presumed abandoned under this party shall report to the 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.”

An unrefunded credit balance of \$73.86 remains on the accounts receivable ledger of one former Medicaid resident of Kindred Nursing and Rehabilitation – Smith County and is due to the Medicaid Program.

### **Recommendation**

Kindred Nursing and Rehabilitation – Smith County should implement an adequate system to promptly refund credit balances on the accounts of former residents. Additionally, the facility’s management should maintain evidence of attempts to contact the owner of the credit balance. In case 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’s Division of Unclaimed Property.

### **Management’s Comment**

Management concurs and has resolved the issue.

## SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

### Source of Overpayments

Residents Inappropriately Charged for Covered Services (see finding 1)	\$2,711.00
Unrefunded credit balances (see finding 2)	<u>\$ 73.86</u>
Total	<u>\$2,784.86</u>

### Disposition of Overpayments

Due to the State of Tennessee	\$ 73.86
Due to residents or their authorized representatives	<u>\$2,711.00</u>
Total	<u>\$2,784.86</u>