DIVERSICARE, INC.
FRANKLIN, TENNESSEE

HOME OFFICE COST REPORT
FOR THE PERIOD
JANUARY 1 THROUGH DECEMBER 31, 1993

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August 14, 1996

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Bob Corker, Commissioner
Department of Finance and Administration
State Capitol
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 reviews 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 our review of the home office operations of Diversicare, Inc., Franklin, Tennessee, for the period January 1 through December 31, 1993. Our review revealed certain discrepancies which are set forth in the Finding and Recommenda-tion section of the report.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/cr
94-148

State of Tennessee

Review Highlights

Comptroller of the Treasury Division of State Audit

Medicaid Report
Diversicare, Inc.
Franklin, Tennessee
For the Year Ended December 31, 1993

REVIEW OBJECTIVES

The objectives of the review were to determine the reasonableness and allowability of costs shown on the home office cost report; to determine whether total allowable costs were allocated equitably to each facility; to assess whether records maintained by the home office were adequate to determine compliance with Medicaid Program financial requirements; and to recom-mend appropriate actions to correct any deficiencies.

FINDING

Nonallowable Expenses Included on the Home Office Cost Report*
Diversicare, Inc., could not locate supporting documentation for $5,559.13 of expenses. In addition, the home office reported expenses of $18,955.22 which were not related to its Tennessee facilities and expenses of $29,318.13 which were not related to patient care. Furthermore, the facility overstated depreciation expense by $17,560.38 because it used im-proper useful lives to calculate depreciation expense. Additional expenses considered to be excessive or duplicative totaled $278,666.29. The effect of the necessary adjustments for these nonallowable expenses will be considered in the reviews of the individual Tennessee facilities (page 4).

*This finding is repeated from the prior audit (for the year ended December 31, 1989).

“Audit Highlights” is a summary of the report. To obtain the complete Medicaid report which contains all findings, recommendations, and management comments, please contact

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INTRODUCTION

OBJECTIVES OF THE REVIEW

This is a report on the review of the transactions, books, and accounts of Diversicare, Inc., pertaining to the Medicaid Nursing Facility Program, part of the Tennessee Medical Assistance Program under Title XIX of the Social Security Act. The purpose of the review was to evaluate the home office's operations in accordance with generally accepted government auditing standards, the *Medicare and Medicaid Guide*, *Tennessee Code Annotated* requirements, and *Rules and Regulations of the State of Tennessee*.

The objectives of the review were

1. to determine the reasonableness and allowability of costs shown on the home office's cost report;
2. to determine whether total allowable costs were allocated equitably to each facility;
3. to assess whether records maintained by the home office were adequate to determine compliance with Medicaid Program financial requirements; and
4. to recommend appropriate actions to correct any deficiencies.

POST-REVIEW AUTHORITY

The review was conducted pursuant to the cooperative agreement between the Tennessee Department of Finance and Administration and the Comptroller of the Treasury, in which the Comptroller of the Treasury agrees to review or have reviewed the reimbursable cost information submitted by nursing facilities participating in the Medical Assistance Program. The scope and extent of this review are the responsibility of the Comptroller of the Treasury. Since chain organizations allocate costs to their subsidiary nursing homes, it is necessary to review the home office cost report.

Section 71-5-130, *Tennessee Code Annotated*, requires that cost data submitted by a facility be subject to audit by the Comptroller of the Treasury or any agency or organization designated by the Comptroller.

SCOPE OF THE REVIEW

To perform the attestation engagement, we tested the home office's financial and statistical records for the period January 1 through December 31, 1993.

The reasonableness and allowability of reported costs were determined by tracing reported expenses to the home office's ledgers and worksheets and by verifying sample expendi-tures through testing invoices and canceled checks. The statistical bases used to allocate costs to the subsidiary facilities were traced to the source documents and tested to determine the accuracy of the allocations.

The examination also included other review procedures we considered necessary in the circumstances. In addition, we have reviewed the adequacy of the home office's independent public accountant's working papers.

BACKGROUND INFORMATION

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 Medicaid 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.

Diversicare, Inc., Franklin, Tennessee, operates and provides home office services for nursing facilities. The home office operates the following facilities in Tennessee participating in the NF-1 and NF-2 programs:

1. Cambridge Medical Center
2. Briarcliff Health Care Center
3. Manor House of Dover
4. Laurel Manor Health Care Facility
5. Martin Health Care Center

Counsel Corporation, a Canadian financial management company, controls 70 percent of Diversicare, Inc., a Delaware corporation, through outright ownership of three other companies.

Diversicare, Inc., owns Diversicare Management Services Company and American Homepatient, Inc. Diversicare Corporation of America (one of three companies directly owned by Counsel Corporation and the parent company of Diversicare, Inc.) owns Counsel Nursing Properties, Inc., which owns several nursing facilities.

For the five Tennessee nursing facilities participating in the NF-1 and NF-2 programs, the home office reported a total of 197,814 patient days.

Allan Silber serves as Chairman of the Board of Directors. Other members of the board are Dr. Charles Birkett, President and Chief Executive Officer; Edward Sonshine; Henry Blackstock; Robert Bandeen; John Zuccotti; Colleen Conway-Welch; and H. Garfield Emerson.

The previous review of Diversicare, Inc., for the period January 1 through December 31, 1989, contained a finding concerning nonallowable expenses on the cost report. This finding has been repeated in this report.

RESULTS OF THE REVIEW

FINDING AND RECOMMENDATION

NONALLOWABLE EXPENSES INCLUDED
ON THE COST REPORT

FINDING:

Diversicare, Inc., included $319,552.32 of nonallowable expenses on the "Home Office Cost Report" for the year ended December 31, 1993. The adjustment to allowable expenses consists of the following items:

- Unsupported expenses totaling $5,559.13 and expenses unrelated to patient care totaling $29,318.13.

  Chapter 1200-13-6-.09 of the *Rules of Tennessee Department of Health* states that "adequate financial records, statistical data, and source documents must be maintained for proper determination of costs under the program." It also specifies that unnecessary costs and costs unrelated to patient care are to be deducted from allowable expenses.

- Expenses of $18,955.22 unrelated to Tennessee facilities.

  Paragraph 5999 V-3 of the *Medicare and Medicaid Guide* states:

  > The initial step in the allocation process [of home office costs to components in a chain] is the direct assignment of costs to the chain components. Allowable costs incurred for the benefit of, or directly attributable to, a specific provider or nonprovider activity must be allocated directly to the chain entity for which they were incurred.

- Overstated depreciation expenses of $17,560.38 resulting from the use of improper useful lives to depreciate several assets.

  Paragraph 4695 of the *Medicare and Medicaid Guide* states:

  > In initially selecting a proper useful life for computing depreciation . . . providers may use the useful life guidelines published by the American Hospital Association. . . .

> A different useful life may be approved by the intermedi-ary if the provider's request is properly supported by acceptable factors which affect the determination of useful life.

- Duplicative consulting expenses of $18,723.68 and unreasonable salary expenses of $229,435.78.

  Paragraph 5858 of the *Medicare and Medicaid Guide* states:

  > Implicit in the intention that actual costs be paid to the extent they are reasonable, is the expectation that the provider seeks to minimize its costs and that its actual costs do not exceed what a prudent and cost-conscious buyer pays for a given item or service. If costs are determined to exceed the level that such buyers incur, in the absence of clear evidence that the higher costs were unavoidable, the excess costs are not reimbursable under the program.

- Diversicare, Inc., also improperly allocated costs to a non-reimbursable cost center. As a result, $386,311 will be added back to allowable expenses.

The effect of these adjustments will have no effect on the Medicaid reviews of the individual nursing facilities.

RECOMMENDATION:

Diversicare, Inc., should include only allowable expenses on the "Home Office Cost Report." All reported expenses should be adequately supported and related to patient care. The useful lives for fixed assets should be adjusted to those effective for cost reporting periods beginning January 1, 1995, prescribed in the *Medicare and Medicaid Guide*. Each asset's book value as of December 31, 1994, should be depreciated over the asset's remaining allowable useful life. All reported expenses should be reasonable and necessary.

MANAGEMENT'S COMMENT:

Management's concurs.