

**GALLATIN HEALTH CARE ASSOCIATES
GALLATIN, TENNESSEE**

**COST REPORT FOR THE PERIOD
APRIL 1, 1993, THROUGH MARCH 31, 1994,
AND PATIENT ACCOUNTS FOR THE PERIOD
APRIL 1, 1993, THROUGH JUNE 22, 1995**

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March 18, 1997

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
and
The Honorable Nancy Menke, Commissioner
Department of Health
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 Health, 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 Medicaid cost report of Gallatin Health Care Associates, Gallatin, Tennessee, for the period April 1, 1993, through March 31, 1994, and patient accounts for the period April 1, 1993, through June 22, 1995. Our review revealed certain discrepancies, which are set forth in the Findings and Recommendations section of the report. The Department of Health should take whatever action deemed necessary regarding the \$200,297.77 due to the State of Tennessee and the \$7,591.32 due to patients or their authorized representatives.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/tp
95/121

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Medicaid Report
Gallatin Health Care Associates
For the Year Ended March 31, 1994

REVIEW OBJECTIVES

The objectives of the review were to determine the reasonableness and allowability of costs shown on the Medicaid cost report; to determine whether charges to patients complied with applicable rules; and to recommend appropriate actions to correct any deficiencies.

FINDINGS RECOMMENDING MONETARY REFUNDS

Need to Properly Manage Unrefunded Credit Balances*

No documentation was maintained showing that residents, or their authorized representatives, and the state were notified of money due them—\$7,591.32 and \$4,012.74, respectively. The facility has no system to manage unrefunded credit balances (page 8).

Nonallowable Expenses Included on the Cost Report*

The facility included \$148,451.59 of nonallowable expenses on its cost report. Disallowance of the expenses reduced the medicaid reimbursement rate for the facility. Therefore, based on the corrected rate, a refund of \$196,285.03 for overpayments to the Medicaid Program is due the State of Tennessee (page 9).

FINDINGS NOT RECOMMENDING MONETARY REFUNDS

Inadequate Surety Bond*

The facility's surety bond was inadequate to insure funds held in trust for its patients (page 6).

Inaccurate Accumulation of Inpatient Days

Gallatin Health Care Associates inaccurately accumulated inpatient days. Medicaid NF-1 days were understated by 1,069; Medicaid NF-2, by three; private, by 103; Medicare, by 28; and total days were understated by 941. The reimbursable rate is included in the “nonallowable expenses” finding 4 (page 7).

*Similiar findings were reported in the previous review of this facility.

“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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GALLATIN, TENNESSEE
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INTRODUCTION

OBJECTIVES OF THE REVIEW

This is a report on the review of the transactions, books, accounts, and trust funds of Gallatin Health Care Associates 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 attest to the nursing facility's assurances that it had complied with the financial and program requirements of the Tennessee Medicaid Program set forth in the *Rules and Regulations of the State of Tennessee*, the *Medicare and Medicaid Guide*, and *Tennessee Code Annotated*. Our review was conducted in accordance with attestation standards issued by the American Institute of Certified Public Accountants.

The objectives of the review were

1. to determine the reasonableness and allowability of costs shown on the Medicaid Nursing Facility cost report submitted to the Office of the Comptroller of the Treasury;
2. to determine whether charges to patients complied with the Nursing Facility Manuals and the agreement between the facility and the Department of Health; and
3. 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 Health and the Comptroller of the Treasury in which the Comptroller 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.

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 facility's financial and statistical records pertaining to the nursing facility's cost report for the period April 1, 1993, through March 31, 1994, and patient accounts for the period April 1, 1993, through June 22, 1995.

The reasonableness and allowability of reported costs were determined by tracing reported expenses to the facility's ledgers and worksheets and by verifying sample expenditures through testing invoices and canceled checks. Reported inpatient days were traced to the facility's census reports and patient logs. Sample months were tested by recomputing inpatient days from the census reports and by verifying dates of admission, discharge, and death recorded in medical files.

Whether charges to patients have been in compliance with applicable regulations was determined by recomputing charges for a sample of patients and comparing these charges to actual charges on the facility's accounts receivable ledger. Payments were tested by using information from the facility's accounts receivable ledger, from the Tennessee Department of Human Services' determination of patient income, and from a list of Medicaid payments made by the state's Medicaid fiscal agent. The facility holds and accounts for patients' personal funds in a trust fund. This patient trust fund was tested to determine whether patients were overcharged for covered items or services or charged for nonallowable items. The patient trust fund bank account was reconciled with the trust fund ledger to determine whether the patients' personal funds were safeguarded adequately and accounted for accurately. We have also reviewed the adequacy of the facility'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 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.

Gallatin Health Care Associates, Gallatin, Tennessee, provides both NF-1 and NF-2 services. The facility is owned by Dixie Taylor and managed by Quality Care Management Company. The following are partners in Quality Care Management Company:

<u>NAME</u>	<u>OWNERSHIP</u>	<u>POSITION</u>
Dixie Taylor	33 1/3%	President
Fred Beene	33 1/3%	Vice President
Bob Whitcomb	33 1/3%	Secretary-Treasury

During the period reviewed, the facility maintained a total of 215 licensed beds from March 1 to September 30, 1993, and 200 licensed beds from October 1, 1993, to March 31, 1994. 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 75,745 available bed days, 58,225 were for Medicaid NF-1 patients, and 17,520 were for Medicaid NF-2 patients for the year ended March 31, 1994. Also, the facility reported total operating expenses of \$5,497,971 for the period.

The Division of Quality Assurance inspected the quality of the facility's physical plant, professional staff, and patient services. The nursing facility met the required standards.

The following Medicaid reimbursable rates were in effect for the period covered by this report:

<u>Period</u>	<u>Level I NF (744-0493)</u>	<u>Level II NF (044-5183)</u>
April 1 through June 30, 1993	\$59.29	\$99.46
July 1, 1993, through March 31, 1994	\$59.16	\$91.41

The prior report of Gallatin Health Care, for the period January 1 through December 31, 1989, contained the following findings:

1. Nonallowable expenses included on the cost report
2. Need to properly manage unrefunded credit balances
3. Inadequate surety bond coverage for patient trust funds

All three findings are repeated in this report.

Report on Agreed-Upon Procedures

June 22, 1995

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have applied the procedures listed below to the Medicaid cost report of Gallatin Health Care Associates for the period April 1, 1993, through March 31, 1994, and to the facility's patient accounts for the period April 1, 1993, through June 22, 1995. These procedures are intended to assist the Department of Health in evaluating and monitoring nursing facilities' compliance with Medicaid Program requirements. This report is intended for use by the Department of Health and Gallatin Health Care Associates and should not be used by those who did not participate in determining the procedures. This restriction is not intended to limit the distribution of this report, which by statute is a matter of public record.

- We compared salaries from the nursing facility's records to its quarterly wage reports and verified the accuracy of compensation to owners and relatives of owners (in accordance with state regulations) reported on the cost report. We reviewed a sample of other expenses for reasonableness and allowability in accordance with state and federal program requirements.
- We tested the accumulation of patient days, verified the propriety of billed hospital days in accordance with the 15-day hospital stay and 85 percent occupancy rule, and checked compliance with the 18-day therapeutic leave day rule.

The Honorable W. R. Snodgrass
June 22, 1995
Page Two

- We inspected the patient trust fund for accuracy and appropriateness of charges to Medicaid patients in accordance with state and federal regulations.
- We tested patient accounts for accuracy and allowability of patient charges and balances.

These agreed-upon procedures are substantially less in scope than an examination, the objective of which is the expression of an opinion on the cost report. Accordingly, we do not express such an opinion.

Based on the application of the procedures referred to above, except as noted in the Findings and Recommendations section of this report, nothing came to our attention that caused us to believe the expenses, patient days, patient accounts, or patient trust funds reported on the cost report of Gallatin Health Care Associates should be adjusted or in any way are not in conformity with the applicable state and federal regulations.

Had we performed additional procedures, or had we performed an examination of the cost report of Gallatin Health Care Associates, other matters might have come to our attention that would have been reported to you. This report relates only to the procedures specified above and does not extend to any financial statements of Gallatin Health Care Associates, taken as a whole.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/tp

RESULTS OF THE REVIEW

FINDINGS AND RECOMMENDATIONS

NEED TO MAINTAIN AN ADEQUATE SURETY BOND

1. FINDING:

Gallatin Health Care Associates has failed to maintain a surety bond as required by federal law. As of June 19, 1995, no surety bond exists to insure the patient trust fund balance of \$37,815.10.

Section 68-11-906, *Tennessee Code Annotated*, states that “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.”

In addition, the Tennessee Adult Protection Act, Title 71, Chapter 6, Part 1, *Tennessee Code Annotated*, provides for penalties in cases where the exploitation of funds paid by a government agency to an adult or to a caretaker for the adult’s use is shown to be willful.

RECOMMENDATION:

Gallatin Health Care Associates should establish adequate procedures to ensure compliance with applicable laws and regulations for the protection of patient trust funds. The facility should obtain a surety bond and accordingly increase the bond to provide coverage for all money held in trust as the balance of the patient trust fund increases.

MANAGEMENT’S COMMENTS:

The facility has not been able to procure a surety bond. The general partner checked with the State and with HCFA to find out if an alternative would be acceptable. It is managements understanding that many nursing homes around the country are unable to obtain surety bonds. As a result Gallatin Health Care increased the limits for “employee theft and dishonesty” to more than cover the \$38,000 of patient trust funds handled by employees.

INACCURATE ACCUMULATION OF INPATIENT DAYS

2. FINDING:

Gallatin Health Care Associates inaccurately accumulated inpatient days. Census records could not be reconciled with reported inpatient days on the “Intermediate Care Statement of Reimbursable Cost.”

Chapter 1200-06-13-.15 of the *Rules of Tennessee Department of Health* stipulates, “Adequate cost and statistical data . . . must be based on and traceable to the provider’s financial and statistical records and must be adequate, accurate, and in sufficient detail to support payment made for services rendered to beneficiaries.”

As a result of the inaccurate accumulation and reporting of inpatient days, NF-1 Medicaid days were understated by 1,069; NF-2 Medicaid, by 3; NF-1 and NF-2 private days, overstated and understated by 140 and 37, respectively; Medicare days overstated by 28; and total days were understated by 941.

The effect of audit adjustments to the facility’s Medicaid reimbursable rate is incorporated into finding 4.

RECOMMENDATION:

Gallatin Health Care Associates should maintain census records that are adequate and accurate to provide the statistical data necessary for proper completion of the “Intermediate Care Statement of Reimbursable Cost.”

MANAGEMENT’S COMMENT:

Management has reviewed the calculations made on census days reported and related “routine revenue”. Management concurs with the calculations but notes that these differences were primarily due to a misunderstanding on the reporting of days and revenue for reserve days paid by Tennessee.

NEED TO PROPERLY MANAGE UNREFUNDED CREDIT BALANCES

3. FINDING:

Gallatin Health Care Associates has not established a system to ensure that credit balances on the accounts of deceased or discharged residents are properly managed. Management did not maintain evidence that former residents or their authorized representatives were notified of money due them. Management also failed to refund the portion of the credit balances due the Medicaid Program. Furthermore, management did not report and remit abandoned property to the State Treasurer.

Section 62-29-112 of *Tennessee Code Annotated* states:

All property . . . that is held or owing in the ordinary course of the holder's business and has remained unclaimed by the owner for more than five (5) years after it became payable or distributable is presumed abandoned. . . .Property . . . shall also be presumed abandoned if the owner thereof is known to the holder to have died and left no one to take the property by will and no one to take the property by intestate succession.

Section 66-29-113 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 \$11,604.06 remain on the accounts of 61 former residents of Gallatin Health Care Associates. Of this amount, \$4,012.74 is due the Medicaid Program for overpayments to the facility made on behalf of the residents, and \$7,591.32 is due former residents or their authorized representatives who were not notified of money due them.

RECOMMENDATION:

Gallatin Health Care Associates should maintain evidence that former residents or their authorized representatives are notified of money due them. The facility should maintain a record of balances with the resident's name and social security number, the dates of last account activity and last owner contact, and the amount due the former resident.

A 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 of the date of 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 \$4,012.74 should be made to the State of Tennessee for the amount due the Medicaid Program. The facility should notify the State Treasurer of the unclaimed property and remit \$7,591.32 with its "Annual Report of Unclaimed Property" to the State of Tennessee.

MANAGEMENT'S COMMENT:

Management disagrees with the finding on credit balances as pertains to the system and procedure followed, not the amounts due. Management will support the subsequent payment of amounts, if any, of these credit balances both private and Medicaid. Management has a process in place that sends out notification to families after discharge (copy of final bill) that notifies the family of the credit balance due. Payment is made after facility is contacted by family representative. If no contact is made within five (5) years the amounts are considered abandoned property and the state is then so notified. Gallatin did not have any balances due patients or the state that fell into that category. The amount of credits due the state do not get paid by check, as they are collected by the state on a future remittance after the state determines there is an appropriate overpayment. As a result the facility is going to reflect overpayments until they are collected by the Medicaid. The amounts due private patients may be correct as of audit date but they were notified of these amounts due.

NONALLOWABLE EXPENSES ON THE COST REPORT

4. FINDING:

Gallatin Health Care Associates included \$148,451.59 of nonallowable expenses on the "Intermediate Care Statement of Reimbursable Cost" for the year ended March 31, 1994. The adjustment to allowable expenses consists of \$9,101.75 of expenses not related to patient care, \$4,434.23 of unsupported expenses, \$27,325.09 of unsupported accounts

payable, \$45,059.48 of nonallowable interest expense, and \$56,399.24 of allocated home office expenses. Also, adjustments of \$2,903.76 were made to depreciation for revalued assets related to a December 30, 1986, change of ownership. An adjustment of \$3,228.07 was made for expense items that should be depreciated. In addition, \$17.94 was added back for allowable depreciation expense.

Chapter 1200-13-6-.09 of the *Rules of Tennessee Department of Finance and Administration* 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. The rule further states, “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.”

According to the Medicare/Medicaid provisions of the 1984 Deficit Reduction Act, effective July 18, 1984, capital costs, which include depreciation, interest, and return on equity, may not be increased solely because of change of ownership.

As a result of the above adjustments to allowable expenses, the facility’s Medicaid reimbursable rate was decreased as follows:

<u>Period</u>	<u>Original Rate</u>	<u>Adjusted Rate</u>	<u>Difference</u>
July 1, 1994, through June 30, 1995	\$70.32	\$66.54	(\$3.78)
July 1, 1995, through September 30, 1996	\$76.13	\$76.08	(\$0.05)
October 1, 1996, through February 28, 1997	\$81.20	\$81.20	\$ -

Based on this rate reduction, overpayments made to the facility from July 1, 1994, through February 28, 1997, total \$196,285.03.

The adjustments to allowable expenses had no effect on the facility’s Medicaid reimbursable rate.

RECOMMENDATION:

Gallatin Health Care Associates should include only allowable expenses on the “Intermediate Care Statement of Reimbursable Cost.” All reported expenses should be adequately supported and related to patient care.

The facility should follow provisions of the 1984 Deficit Reduction Act concerning allowable valuation of assets after a change of ownership.

A refund of \$196,285.03, representing overpayments by the Medicaid Program as a result of the rate reduction, should be made to the State of Tennessee.

MANAGEMENT'S COMMENT:

Management concurs in part. Of the unsupported accounts payable, \$34,617.97 was paid directly by or through the general partner. Evidence of this payment is enclosed.

The interest calculation, while technically correct, did not include all of the interest booked by the outside auditors on 12-31-93 for Vanderbilt (a loan payable to the University). This interest needs to be included for the allowable calculation since the calculated allowable amount is still considerably less than the reported amounts. This would add a small amount to the allowable mortgage interest. This calculation follows audit agreed ratios and reverses the adjustment from a disallowance of \$39,358 to an add back of \$25,029 or a decrease in the state adjustment of \$64,387.

The home office costs, while contested at the home office level, represent disallowed salaries of management personnel that, if unrelated, would be allowable. Further challenge on this matter has been determined too costly as the rules would have to be changed in order for the costs to be allowed. Future home office reports have reflected the proper adjustments.

REBUTTAL:

Documentation for \$25,184.70 was included with management's comments. The remaining \$10,433.27 will be disallowed. [The rate adjustment does reflect the allowance of \$25,184.70 of previously unsupported cost.]

The interest expense reported specifically for the Vanderbilt loan was \$96,000. This amount has been considered in full by auditors in determining the amount allowed under DEFRA (Deficit Reduction Act) as a result of an ownership change which took place before the prior audit and was included in that audit as a finding. By rule, Chapter 1200-13-6 of the *Rules of the Tennessee Department of Health*, the cost report cannot be amended to include previously omitted costs once the cost report for the subsequent period has been filed.

SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

Source of Overpayments

Unrefunded credit balances (finding 3)	\$ 11,604.06
Rate reduction (finding 4)	<u>196,285.03</u>
Total	<u>\$207,889.09</u>

Disposition of Overpayments

Due to the State of Tennessee	\$ 200,297.77
Due to patients or their authorized representatives	<u>7,591.32</u>
Total	<u>\$ 207,889.09</u>