# HEALTH PRIME, INC.
# ATLANTA, GEORGIA

## HOME OFFICE COST REPORT
## FOR THE PERIOD
## JANUARY 1 THROUGH DECEMBER 31, 1994

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April 7, 1997

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
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 Health Prime, Inc., Atlanta, Georgia, for the period January 1 through December 31, 1994. Our review revealed certain discrepancies, which are set forth in the Findings and Recommendations section of the report.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/tp
96/054

State of Tennessee

# Review Highlights

Comptroller of the Treasury | Division of State Audit

Medicaid Report
**Health Prime, Inc.**
Atlanta, Georgia
For the Year Ended December 31, 1994

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## 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 recommend appropriate actions to correct any deficiencies.

## FINDINGS

**Nonallowable Expenses Included on the Cost Report**
Health Prime, Inc., improperly included $291,858.49 in its pooled cost allocation for the year ended December 31, 1994. Adjustments to expenses included $5,774.65 of unsupported expenses; $75,243.97 of nonallowable expenses; $2,178.32 of unreasonable compensation; $178.42 of nonallowable payroll taxes related to unreasonable compensation; $668.02 of unsupported payroll tax expense; $3,121.00 of payroll expenses and $197,578.92 of expenses to be directly assigned to non-Tennessee homes; and $7,115.19 of expenses to be directly assigned to Tennessee homes. Previously disallowed expenses of $74,382.92 were found to be allowable and will be netted against nonallowable expenses in the allocation of costs to the chain components.

**Deficiencies in Allocation of Cost and Equity to Chain Components**
Health Prime, Inc., used inaccurate statistics to allocate cost and equity to its chain components and allocated equity to homes in which it did not have ownership interest.

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"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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HEALTH PRIME, INC.
ATLANTA, GEORGIA
HOME OFFICE COST REPORT
FOR THE PERIOD
JANUARY 1 THROUGH DECEMBER 31, 1994

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HEALTH PRIME, INC.
ATLANTA, GEORGIA
HOME OFFICE COST REPORT
FOR THE PERIOD
JANUARY 1 THROUGH DECEMBER 31, 1994

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# INTRODUCTION

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## OBJECTIVES OF THE REVIEW

This is a report on the review of the transactions, books, and accounts of Health Prime, 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, 1994.

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. 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.

Health Prime, Inc., Atlanta, Georgia, 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 House; Bristol, Tennessee
2. Hidden Acres; Mt. Pleasant, Tennessee
3. Stratford House; Chattanooga, Tennessee

4. Windsor House; Whites Creek, Tennessee

The home office also manages Wexford House in Kingsport, Tennessee. For the five nursing facilities participating in the NF-1 and NF-2 programs, the home office reported a total of $18,675,622 in expenses.

Douglas Mittleider serves as President and Treasurer. Other officers are Mike Foxworthy, Vice President and Secretary; Paul Quiros, Assistant Secretary; and Linda Rossi, Assistant Secretary.

This is the first review of Health Prime, Inc.

**Report on Agreed-Upon Procedures**

December 15, 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 home office cost report of Health Prime, Inc., for the period January 1 through December 31, 1994. These procedures are intended to assist the Department of Finance and Administration in evaluating and monitoring compliance with Medicaid and TennCare program requirements. This report is intended for use by the Department of Finance and Administration and Health Prime, Inc., 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 tested the reasonableness and accuracy of salary expenses to determine whether compensation to owners and relatives of owners complied with program regulations.

- We reviewed a sample of other expenses for reasonableness and allowability in accordance with program regulations.

- We reviewed the supporting documentation for the statistical bases used to allocate costs to subsidiary nursing facilities and tested the accuracy of the allocations made.

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 Health Prime, Inc., 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 Health Prime, Inc., 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 Health Prime, Inc., taken as a whole.

Sincerely

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

AAH/tp

## FINDINGS AND RECOMMENDATIONS

### NONALLOWABLE EXPENSES INCLUDED ON THE COST REPORT

1. FINDING:

Health Prime, Inc., improperly included $291,858.49 in the pooled allocation of costs to its NF-1 and NF-2 nursing facilities for the year ended December 31, 1994. Adjustments to expenses include $5,774.65 of unsupported expenses; $75,243.97 of nonallowable expenses; $2,178.32 of unreasonable compensation; $178.42 of nonallowable payroll taxes related to unreasonable compensation; $668.02 of unsupported payroll tax expense; $3,121.00 of payroll expenses to be directly assigned to non-Tennessee homes; $197,578.92 of expense to be directly assigned to non-Tennessee homes; and $7,115.19 of expenses to be directly assigned to Tennessee homes. In addition, $74,382.92 of previously disallowed owner's compensation was found to be allowable and will be netted against expense adjustments in the allocation of expenses to the homes.

Chapter 1200-12-6-.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." Also in relation to home office costs, paragraph 5999-V-3 of the *Medicare and Medicaid Guide* stipulates, "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."

Allowable routine costs will be adjusted for these discrepancies. The effect of these adjustments will be considered in the reviews of the individual nursing homes.

RECOMMENDATION:

Health Prime, Inc., should adhere to the *Rules of the Tennessee Department of Finance and Administration* and the *Medicare and Medicaid Guide* in determining allowable costs for allocation to its related homes. All reported expenses should be adequately supported, necessary, and related to patient care.

MANAGEMENT'S COMMENT:

Management did not respond to this finding.

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## DEFICIENCIES IN ALLOCATION OF COST AND EQUITY TO CHAIN COMPONENTS

2. FINDING:

Health Prime, Inc., used inaccurate statistics to allocate costs and equity to its chain components. In addition, equity was allocated to homes in which Health Prime, Inc., did not have ownership interest.

Paragraph 5999-V3 of the *Medicare and Medicaid Guide* states that "pooled costs must be allocated based on either inpatient days or total costs." Although the home office used total costs as the basis for allocation, errors were noted in the comparison of cost data per home office cost report to cost data per source documents.

Paragraph 5999-V of the *Medicare and Medicaid Guide* defines a chain organization as "a group of two or more health care facilities which are owned . . . or otherwise controlled by one organization."

RECOMMENDATION:

Health Prime, Inc., should use accurate cost data in the allocation of equity and costs to its chain components. Also, Health Prime, Inc., should limit its equity allocation to those components in which it has an ownership interest.

MANAGEMENT'S COMMENT:

Management did not respond to this finding.