

**Palmyra Health Care Center/New Dawn  
Palmyra, Tennessee**

**Cost Report for the Period  
July 1, 1996, Through June 30, 1997,  
And Patient Accounts for the Period  
July 1, 1996, Through September 10, 1998**

***Arthur A. Hayes, Jr., CPA, JD, CFE***  
Director

***Ronald M. Paolini, CPA***  
Assistant Director

***Gregg S. Hawkins, CPA***  
Audit Manager

***Bob McCloud, CFE***  
In-Charge Auditor

***Amy Brack***  
Editor

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

TennCare/Medicaid audits are available on-line at [www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**

State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

John G. Morgan  
Comptroller

August 10, 2000

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243

and  
The Honorable John Ferguson, Commissioner  
Department of Finance and Administration  
First Floor, State Capitol  
Nashville, Tennessee 37243-0285

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 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 Palmyra Health Care Center/New Dawn, Palmyra, Tennessee, for the period July 1, 1996, through June 30, 1997, and patient accounts for the period July 1, 1996, through September 10, 1998.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/pn  
98/018

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report  
**Palmyra Health Care Center/New Dawn**  
Cost Report for the Year Ended June 30, 1997,  
And Patient Accounts for the Period  
July 1, 1996, through September 10, 1998

## FINDINGS RECOMMENDING MONETARY REFUNDS

### **Nonallowable Expenses Included on the Cost Report\***

The facility reported \$107,361.94 of nonallowable expenses on its cost report, including \$105,441.64 of unsupported expenses, \$1,321.75 in excess owner's compensation, \$598.55 of expenses unrelated to patient care. Since the facility's computed cost of providing services does not exceed the maximum reimbursement allowed by TennCare, a refund of \$88,025.03 should be remitted to the State of Tennessee for overpayments made by the TennCare Program (page 6).

### **Need to Properly Manage Unrefunded Credit Balances\***

The facility failed to refund \$7,597.39 of credit balances due to the State of Tennessee and to patients or their authorized representatives. The facility should refund \$6,214.08 due to the State of Tennessee and \$1,383.31 to patients or their authorized representatives (page 7).

### **Inaccurate Accumulation of Inpatient Days\***

The facility has not accurately accumulated patient days on the cost report. Also, the facility improperly billed the state \$5,481 for hospital days when its occupancy rate was below 85% (page 8).

### **Deficiencies in Accounting for the Patient Trust Fund**

The facility did not perform adequate bank reconciliations. Also, documentation was not maintained for cash withdrawals and receipts. A variance of \$1,119.71 existed between the trust fund ledger and the bank balance on August 25, 1998. Unsupported withdrawals of \$28,377.14 were also made from individual trust fund accounts. These amounts should be replaced into the appropriate individual accounts (page 9).

\*Denotes finding repeated from the prior examination.

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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

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

TennCare/Medicaid audits are available on-line at [www.comptroller.state.tn.us/sa/reports/index.html](http://www.comptroller.state.tn.us/sa/reports/index.html).  
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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	3
<b>INDEPENDENT ACCOUNTANTS' REPORT</b>	4
<b>FINDINGS AND RECOMMENDATIONS</b>	6
1. Nonallowable expenses included on the cost report	6
2. Need to properly manage unrefunded credit balances	7
3. Inaccurate accumulation of patient days	8
4. Deficiencies in accounting for the patient trust fund	9
Summary of Monetary Findings and Recommendations	11

**Palmyra Health Care Center/New Dawn  
Palmyra, Tennessee  
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**INTRODUCTION**

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**PURPOSE AND AUTHORITY OF THE EXAMINATION**

The terms of contract between the Tennessee Department of Health and the Tennessee Comptroller's office authorizes the Comptroller 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.

Palmyra Health Care Center/New Dawn, Palmyra, Tennessee, provides NF-1, NF-2, and Intermediate Care Facility/Mental Retardation (ICF/MR) services. The buildings are owned by the following individuals:

Charles M. Warren, Jr.	67%
Frances C. Warren Edwards	11%
Charles M. Warren III	11%
Lena A. Warren	11%

The Sun Healthcare Group has leased and operated the facility since July 1998.

During the examination period, the facility maintained a total of 75 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 27,375 available bed days, 12,045 were for Medicaid NF-1 patients, 2,387 were for Medicaid NF-2 patients, and 7,184 were for Medicaid ICF/MR patients for the year ended June 30, 1997. Also, the facility reported total operating expenses of \$2,224,926 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 examination:

<u>Period</u>	<u>Level I NF</u> <u>(744-0300)</u>	<u>Level II NF</u> <u>(044-5184)</u>	<u>ICF/MR</u> <u>(744-7034)</u>
July 1 through September 30, 1996	\$76.85	\$136.15	\$87.74
October 1 through November 30, 1996	\$73.08	\$126.26	\$86.33
December 1, 1996, through June 30, 1997	\$73.08	\$126.26	\$93.36

### **PRIOR EXAMINATION FINDINGS**

The prior report of Palmyra Health Care Center/New Dawn, for the period October 1, 1988, through September 30, 1989, contained the following findings:

- Nonallowable and improperly allocated expenses included on the cost report
- Need to properly manage unrefunded credit balances
- Inaccurate accumulation of patient days

These findings are repeated in this report.

## **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 Accountants' report. Our examination does not cover quality of care, 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  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 741-3697  
FAX (615) 532-2765

**Independent Accountants' Report**

**September 10, 1998**

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and  
Mr. John Tighe, Director  
Bureau of TennCare  
729 Church Street, Fifth Floor  
Nashville, Tennessee 37247

Ladies and Gentlemen:

We have examined management's assertions, included in its representation letter dated September 10, 1998, that Palmyra Health Care Center/New Dawn complied with the following requirements during the cost report period July 1, 1996, through June 30, 1997, and to the facility's patient accounts for the period July 1, 1996, through September 10, 1998.

- Income and expenses reported on the Medicaid Cost Report are reasonable, allowable, and in accordance with state and federal rules, regulations, and reimbursement principles.
- Patient days reported on the Medicaid Cost Report have been counted in accordance with state regulations. Medicaid patient days billed to the state for periods when residents were hospitalized or on therapeutic leave are in accordance with the 15-day hospital stay rule, the 85% occupancy rule, and the 18-day therapeutic leave day rule.
- Charges to patients and charges to patients' personal funds 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 on management's assertions about the facility's compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants, and accordingly, included examining on a test basis, evidence about Palmyra Health Care Center/New Dawn's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Palmyra Health Care Center/New Dawn's compliance with specified requirements.

Our examination disclosed the following material noncompliance issues applicable to state and federal regulations.

- The inclusion of \$107,362 of nonallowable expenses on the cost report.
- Inaccurate accumulation of patient days and improper billing for hospital leave days.
- Failure to properly manage \$7,597 of unrefunded credit balances on the accounts of facility patients.
- Failure to adequately safeguard patient trust funds, resulting in \$28,377 in unauthorized withdrawals from patients' accounts and a variance of \$1,120 between bank statements and the trust fund ledger.

In our opinion, except for the material noncompliance described above, management's assertions that Palmyra Health Care Center/New Dawn complied with the aforementioned requirements for the cost reporting period July 1, 1996, to June 30, 1997, and for patient accounts for the period July 1, 1996, to September 10, 1998, are fairly stated in all material respects.

This report is intended solely for the use of the Tennessee General Assembly and the Tennessee Department of Health. However, this report is a matter of public record and its distribution is not limited.

Sincerely,



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

AAH/pn

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## FINDINGS AND RECOMMENDATIONS

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### 1. Nonallowable expenses included on the cost report

#### Finding

Palmyra Health Care Center/New Dawn included \$107,361.94 of nonallowable expenses on the “Intermediate Care Statement of Reimbursable Cost” for the year ended June 30, 1997. The adjustment to allowable expenses consists of \$598.55 of expense not related to patient care, \$105,441.64 of unsupported expenses, and \$1,321.75 in excess owner’s compensation.

Chapter 1200-13-6-.09 of the *Rules of Tennessee Department of Health* states, “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.

Paragraph 5575 of the *Medicare and Medicaid Guide* allows reasonable compensation for the services of owners, provided the services are necessary. Compensation is therein defined as “the total benefit received by the owner for the services he renders to the institution.” Chapter 1200-13-6-.11 of the *Rules of Tennessee Department of Health* sets allowable compensation limits for owners and/or their relatives employed by a nursing facility. The owners of this facility exceeded these compensation limits.

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

<u>Period</u>	<u>NF1 Original Rate</u>	<u>ICF/MR Original Rate</u>	<u>Adjusted Rate</u>	<u>Difference</u>
January 1 through June 30, 1998	\$73.77	\$107.71	\$ 0.00 \$101.00	\$ 0.00 (\$ 6.71)
July 1, 1998, through January 31, 1999	\$71.03	\$107.71	\$ 69.51 \$101.00	(\$ 1.52) (\$ 6.71)
February 1 through June 30, 1999	\$71.03	\$ 91.66	\$ 69.51 \$ 91.14	( \$1.52) ( \$0.52)
July 1, 1999, through February 29, 2000	\$75.66	\$ 91.66	\$ 74.43 \$ 91.14	(\$ 1.23) (\$ 0.52)
March 1 through June 30, 2000	\$75.66	N/A	\$74.43 N/A	(\$ 1.23) N/A

Based on this rate reduction, overpayments made to the facility from January 1, 1998, through June 30, 2000, total \$88,025.03.

### **Recommendation**

Palmyra Health Care Center/New Dawn 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.

A refund of \$88,025.03, representing overpayments by the TennCare Program as a result of this rate reduction, should be made to the State of Tennessee.

### **Management’s Comment**

Management is unable to locate additional documentation to support these costs.

## **2. Need to properly manage unrefunded credit balances**

### **Finding**

Palmyra Health Care Center/New Dawn 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 TennCare Program.

Accounts receivable unrefunded credit balances of \$7,565.68 and patient trust fund unrefunded credit balances of \$31.71 remain on the accounts of five former residents of Palmyra Health Care Center/New Dawn. Of this amount, \$6,214.08 is due the TennCare Program for overpayments to the facility made on behalf of the residents and \$1,383.31 is due former residents or their authorized representatives who were not notified of money due them.

### **Recommendation**

Palmyra Health Care Center/New Dawn 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.

Return of 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 from 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 \$7,565.68 should be made to the State of Tennessee for the amount due the TennCare Program.

### **Management's Comment**

We cannot determine dates of discharge for these residents. Our current aging analysis shows credit balances that existed between February and May 1998 and were transferred from the prior management company's system. Without the dates of service that created the credit balances, we cannot verify this accuracy.

### **Audit Conclusion**

According to the former administrator, the dates of discharge could not be verified. Nonetheless, the credit balances in question still remained on the accounts of these patients at the time of the audit. It is the responsibility of the facility to determine the nature, validity, and timing of the balances and bring them to a proper resolution.

### **3. Inaccurate accumulation of patient days**

#### **Finding**

Palmyra Health Care Center/New Dawn inaccurately accumulated patient days. Also, the facility billed the state when its occupancy rate was under 85% capacity between November 1996 and January 1997. Census records could not be reconciled with reported patient days on the "Intermediate Care Facility Statement of Reimbursable Cost."

Chapter 1200-13-6-.15 of the *Rules of Tennessee Department of Health* stipulates, "This 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." Furthermore, Chapter 1200-13-1-.06 of the *Rules of Tennessee Department of Health* states that reimbursement for residents' hospital stays will be made "for days not to

exceed 15 days per occasion while the recipient is hospitalized and . . . at least 85% of all other beds at the nursing home are occupied at the time of hospital admission.”

As a result of the inaccurate census records, the Medicaid NF1 days were overstated by 574, ICF/MR days were understated by 20, and total days were overstated by 554. In addition, the facility billed \$5,481 to the TennCare Program for noncovered hospital days when the facility was under 85% occupancy.

The effect of these adjustments on the facility’s reimbursable rates is included in Finding 1.

### **Recommendation**

Palmyra Health Care Center/New Dawn should maintain a census report that is adequate and accurate to provide the statistical data necessary for proper completion of the “Intermediate Care Facility Statement of Reimbursable Costs.” Patient days should not be accumulated and charged to the TennCare Program when the facility is operating under 85% occupancy. A refund of \$5,481, representing overpayments by the TennCare Program, should be made to the State of Tennessee.

### **Management’s Comment**

Management concurs. The census summary verifies that the facility census was not at the required bed-hold occupancy level for the dates of service in question.

## **4. Deficiencies in accounting for the patient trust fund**

### **Finding**

Palmyra Health Care Center/New Dawn failed to take adequate measures to safeguard patient trust funds as required by federal law. The following deficiencies were noted:

1. The patient trust fund ledger was not reconciled from July 1, 1996, to September 10, 1998.
2. Adequate documentation was not maintained for cash withdrawals and receipts.
3. There was a variance of \$1,119.71 between the trust fund ledger and the bank balance on August 25, 1998.
4. A total of \$28,377.14 in unsupported withdrawals from individual patient trust fund accounts was noted.

5. Manual ledger cards were incomplete and were left unsecured in numerous locations.

Paragraph 22,163 of the *Medicare and Medicaid Guide* requires the facility to “establish and maintain a system that assures a full and complete and separate accounting, according to generally accepted accounting principles, of each resident’s personal funds entrusted to the facility on the resident’s behalf.” Paragraph 21,682 further states, “The ICF must maintain a current written financial record for each resident that includes written receipts for (1) all personal possessions and funds received by or deposited with the ICF; and (2) all disbursements made to or for the resident.” In addition, *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**

Palmyra Health Care Center/New Dawn should establish adequate procedures to ensure compliance with applicable laws and regulations relative to protection of patient trust funds. The ledger cards should be reconciled with the control account and the bank statement. The facility should immediately identify the individual residents to whom the variance of \$1,119.71 should be distributed. Adequate documentation should be maintained for cash withdrawals. The unsupported withdrawals of \$28,377.14 from patient accounts should be replaced. The facility should confer with officials of the Department of Health for reviewing activities involving patient trust funds to ensure that the procedures they intend to employ are appropriate and acceptable.

### **Management’s Comment**

Management is still currently reviewing these findings. We have been able to find some receipts verifying disbursements, but have not located all the files at this time. We have conducted ongoing reconciliations of patient trust funds and feel we have correct amounts with proper documentation since the current management contract has been in effect.

### **Audit Conclusion**

We cannot justify holding this report any longer. Adequate time has been afforded management to make a definitive response. If management should, at some time subsequent to the release of this report, provide adequate documentation for the trust fund withdrawals, state auditors will give consideration to such records as warranted.

## SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

### Source of Overpayments

Rate Reduction - ICF/MR (finding 1)	\$ 88,025.03
Improperly Billed Hospital Inpatient Days (finding 2)	5,481.00
Unrefunded Credit Balance (finding 3)	7,597.39
Improper Trust Fund Expenditures (finding 4)	<u>28,377.14</u>
Total	<u>\$129,480.56</u>

### Disposition of Overpayments

Due to the State of Tennessee	\$ 99,720.11
Due to patients or their authorized representatives	<u>29,760.45</u>
Total	<u>\$129,480.56</u>