



MEDICAID EXAMINATION

The Cambridge House Bristol, Tennessee

Cost Reports

January 1, 2015, Through December 31, 2016

Resident Days

January 1, 2016, Through June 30, 2017

Resident Accounts

January 1, 2015, Through September 30, 2017

Justin P. Wilson
Comptroller of the Treasury



DIVISION OF STATE AUDIT

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JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Deputy Comptroller

July 6, 2020

The Honorable Bill Lee, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Mr. Stephen Smith, Deputy Commissioner
Division 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 and agencies providing home and community based waiver services 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 The Cambridge House in Bristol, Tennessee, for the period January 1, 2015, through December 31, 2016; resident days for the period January 1, 2016, through June 30, 2017; and resident accounts for the period January 1, 2015, through September 30, 2017.

Sincerely,

A handwritten signature in black ink that reads "Deborah V. Loveless".

Deborah V. Loveless, CPA, Director
Division of State Audit

DVL/pn
18/027

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

TennCare Report
The Cambridge House
Bristol, Tennessee
Cost Reports for the Period
January 1, 2015, Through December 31, 2016;
Resident Days for the Period
January 1, 2016, Through June 30, 2017;
and Resident Accounts for the Period
January 1, 2015, Through September 30, 2017

FINDINGS RECOMMENDING MONETARY REFUNDS

Nonallowable Expenses Included on the Cost Reports

The Cambridge House included \$226,594.57 of nonallowable expenses on the Medicaid Nursing Facility Cost Report for the fiscal year ended December 31, 2015. The nonallowable expenses consisted of \$188,067.15 in unsupported expenses; \$36,227.73 in non-resident meal delivery services; \$1,890.00 of unsupported bank fees; \$386.34 in personal employee purchases; and \$23.35 in late fees.

The Cambridge House included \$199,335.65 of nonallowable expenses on the Medicaid Nursing Facility Cost Report for the fiscal year ended December 31, 2016. The nonallowable expenses consisted of \$163,808.24 in unsupported expenses; \$29,425.36 in non-resident meal delivery services; \$5,692.17 in unsupported bank fees; \$200.00 in non-Cambridge House

expenses; \$101.16 in depreciation expense for assets not placed in service; \$85.96 in personal employee purchases; and \$22.76 in late fees.

As a result of these expense adjustments, as well as adjustments to the home office examination of AltaCare Corporation, overpayments made to the facility by the Medicaid Program are estimated at \$1,006,717.94 computed from July 1, 2015, through June 30, 2018 (page 5).

Residents Inappropriately Charged for Covered Items

The Cambridge House has inappropriately charged Medicaid residents' trust fund accounts for Medicaid covered items. The facility charged 22 Medicaid residents the full cost of non-stocked diapers that were specifically requested by the residents. The facility is only allowed to charge residents

the difference between the diapers stocked by the facility and the diapers specifically requested by residents. The cost of the stocked items inappropriately charged to Medicaid residents totaled \$5,468.01 for the period January 1, 2015, through September 30, 2017 (page 10).

Commingling of Resident Trust Funds With Operational Accounts

The Cambridge House failed to take adequate measures to safeguard resident trust funds as required by federal and state

laws. The facility regularly transferred funds from the trust fund bank account to the facility's operational bank account.

The facility lacked adequate documentation and proper authorization from either the residents or their authorized representatives for withdrawals in 11 of the Medicaid resident trust fund accounts, totaling \$663.12 for the period January 1, 2015, through September 30, 2017 (page 11).

FINDING NOT RECOMMENDING MONETARY REFUND

Insufficient Surety Bond Coverage for the Resident Trust Fund

The Cambridge House failed to maintain an adequate trust fund surety bond to protect resident funds. The amount of the surety bond was not sufficient to cover all funds

held in trust. As of September 1, 2017, and September 6, 2017, the resident trust fund balance was \$61,345.05 and \$63,098.28, respectively, while the coverage under the bond was limited to \$60,000 (page 13).

**The Cambridge House
Bristol, Tennessee
Cost Reports for the Period
January 1, 2015, Through December 31, 2016;
Resident Days for the Period
January 1, 2016, Through June 30, 2017;
and Resident Accounts for the Period
January 1, 2015, Through September 30, 2017**

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**The Cambridge House
Bristol, Tennessee
Cost Reports for the Period
January 1, 2015, Through December 31, 2016;
Resident Days for the Period
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and Resident Accounts for the Period
January 1, 2015, Through September 30, 2017**

INTRODUCTION

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.

The Cambridge House in Bristol, Tennessee, provides both NF-1 and NF-2 services. The facility is owned by Franklin Cambridge Operations, LLC, located in Alpharetta, Georgia. Medicom, Inc. owns 99% of Franklin Cambridge Operations, LLC, and Long Term Care Services, Inc. owns 1%. Medicom, Inc. is owned by HP/Healthcare Acquirors, Inc. (99%) and Long Term Care Services, Inc. (1%). Long Term Care Services, Inc. is wholly owned by Sentry Healthcare Acquirors, Inc. The Cambridge House is operated by AltaCare Corporation, located in Alpharetta, Georgia. The sole owner of AltaCare Corporation is HP/Holdings, Inc., of which Doug Mittleider owns 75% and Mike Foxworthy owns 25%. Mr. Mittleider is AltaCare Corporation’s sole director. Per Mr. Mittleider, “Franklin Cambridge Operations, LLC filed a voluntary chapter 11 bankruptcy filing on January 27, 2020, Case No. 1:20-bk-10327-NWW, in the United States Bankruptcy Court for the Eastern District of Tennessee.”

During the examination period, the facility maintained a total of 130 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 47,450 available bed days, the facility reported 22,527 for Medicaid NF-1 residents and 86 for Medicaid NF-2 residents for the year ended December 31, 2015. Of the 47,580 available bed days, the facility reported 20,679 for Medicaid NF-1 residents and 308 for Medicaid NF-2 residents for the year ended December 31, 2016. Also, the facility reported total operating expenses of \$7,965,361 for the year ended December 31, 2015, and \$6,133,693 for the year ended December 31, 2016.

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 (744-0530)</u>	<u>Level II NF (044-5190)</u>
July 1, 2015, through June 30, 2016	\$169.43	\$214.80
July 1, 2016, through June 30, 2017	\$188.61	\$212.25
July 1, 2017, through June 30, 2018	\$180.55	\$226.63

PRIOR EXAMINATION FINDINGS

There were no prior examinations conducted in the previous 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 specified later in the Independent Accountant’s report. Our examination does not cover quality of care or clinical or medical provisions.



JUSTIN P. WILSON
Comptroller

JASON E. MUMPOWER
Chief of Staff

Independent Accountant's Report

January 25, 2018

The Honorable Bill Haslam, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Dr. Wendy Long, 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 January 25, 2018, that The Cambridge House complied with the following requirements:

- Income and expenses reported on the "Medicaid Nursing Facility Level 1 Cost Report" for the fiscal years ended December 31, 2015, and December 31, 2016, are reasonable, allowable, and in accordance with state and federal rules, regulations, and reimbursement principles.
- Resident days reported on the Medicaid cost reports have been counted in accordance with state regulations. Medicaid resident days billed to the state from January 1, 2016, through June 30, 2017, when residents were hospitalized or on therapeutic leave are in accordance with the bed hold rules.
- Charges to residents and charges to residents' personal funds from January 1, 2015, through September 30, 2017, 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. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertions are fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about management's assertions. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risks of material misstatement of management's assertions, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion. Our examination does not provide a legal determination on the entity's compliance with specified requirements.

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

- Nonallowable expenses included on the cost reports;
- Residents inappropriately charged for covered items;
- Commingling of resident trust funds with operational accounts; and
- Insufficient surety bond coverage for the resident trust fund.

In our opinion, because of the significance of the matters described above, management's assertions that The Cambridge House complied with the aforementioned requirements for income and expenses reported on the Medicaid cost reports for the period January 1, 2015, through December 31, 2016; for resident days for the period January 1, 2016, through June 30, 2017; and for resident accounts for the period January 1, 2015, through September 30, 2017, are not fairly stated in accordance with the criteria, in all material respects.

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

FINDINGS AND RECOMMENDATIONS

1. Nonallowable Expenses Included on the Cost Reports

Finding

The Cambridge House included \$425,930.22 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Reports” for the years ended December 31, 2015, and December 31, 2016.

The Cambridge House included \$226,594.57 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the fiscal year ended December 31, 2015. The nonallowable expenses included \$188,067.15 in unsupported expenses; \$36,227.73 in non-resident meal delivery services; \$1,890.00 in unsupported bank fees; \$386.34 of personal employee purchases; and \$23.35 in late fees.

The Cambridge House included \$199,335.65 of nonallowable expenses on the “Medicaid Nursing Facility Level 1 Cost Report” for the fiscal year ended December 31, 2016. The nonallowable expenses included \$163,808.24 in unsupported expenses; \$29,425.36 in non-resident meal delivery services; \$5,692.17 in unsupported bank fees; \$200.00 in non-Cambridge House expenses; \$101.16 in depreciation expense for assets not placed in service; \$85.96 in personal employee purchases; and \$22.76 in late fees.

Chapter 1200-13-6-.09(4) of the *Rules of the Tennessee Department of Finance and Administration* 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 be deducted from allowable expenses. Such costs that are not allowable in computing reimbursable costs include the following:

- any fines, penalties, or interest paid on any tax payments or interest charges on overdue payables;
- costs that are not necessary or related to patient care; and
- any other costs that are identified and specified as nonallowable by the Medicaid Program manuals, or federal or state rules or regulations.

Paragraph 5866 of the *Medicare and Medicaid Guide* states,

Costs not related to patient care are costs which are not appropriate or necessary and proper in developing and maintaining the operation of patient care facilities and activities. Costs which are not necessary include costs which usually are not common or accepted occurrences in the field of the provider’s activity.

Per 1200-13-6-.15 of the *Rules*,

AUDITING OF COST REPORTS. The cost reports filed in accordance with the rules above and all provider records pertaining thereto shall be subject to audit by the Comptroller of the Treasury or his agents. The cost reports filed in accordance with the rules above must provide adequate cost and statistical data. 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. This data must also be available for and capable of verification by the Comptroller of the Treasury or his agents. The provider must permit the Comptroller or his agents to examine any records and documents necessary to ascertain information pertinent to the determination of the proper amount of program payments due. Data reflected on the cost report which cannot be substantiated may be disallowed with reimbursement being required of the provider.

As a result of these expense adjustments and adjustments related to the home office examination of AltaCare Corporation, where \$855,679.32 of nonallowable cost was allocated to The Cambridge House during the fiscal years 2014, 2015, and 2016, the facility's NF-1 Medicaid reimbursable rate was reduced as follows:

<u>Period</u>	<u>Original Rate</u>	<u>Adjusted Rate</u>	<u>Difference</u>
July 1, 2015, through June 30, 2016	\$169.43	\$161.48	\$ (7.95)
July 1, 2016, through June 30, 2017	\$188.61	\$170.90	\$ (17.71)
July 1, 2017, through June 30, 2018	\$180.55	\$162.47	\$ (18.08)

The above rate adjustments will be sent to the Division of TennCare for reprocessing of all Medicaid claims for the dates of service July 1, 2015, through June 30, 2018. Estimated overpayments made to the facility as a result of these adjustments total \$1,006,717.94.

Recommendation

The Cambridge House should include only allowable expenses on the "Medicaid Nursing Facility Level 1 Cost Report." All reported expenses should be adequately supported for covered services, related to resident care, and in compliance with other applicable regulations.

The Division of TennCare should reprocess all Medicaid claims for the period July 1, 2015, through June 30, 2018. The estimated recoupment for the reprocessed Medicaid claims for the period is \$1,006,717.94.

Management's Comment

We appreciate the consideration given to the information provided over the course of this audit. We continue to disagree with the assertion of \$226,594.57 of nonallowable expenses for the fiscal year ended December 31, 2015 and \$199,335.65 of nonallowable expenses for the

fiscal year ended December 31, 2016 and various of the other findings. We intend to request an appeal hearing from the Department of Finance and Administration on nearly all the findings.

2015

Unsupported Expenses

The provider disagrees with the finding of \$188,067.15 in unsupported expenses. The primary categories of this finding involve Property Taxes, various insurances, and several miscellaneous entries, which are addressed as follows:

- Property Taxes amounting to \$62,400.00 have been inappropriately disallowed. There appears to be a substitution of a cash-based accounting system in contradiction of the HIM 15 guidelines, and the cite used to justify the adjustments does not appear to be on point. Lastly, HIM 15 Section 2305 appears to indicate how these accrued expenses should be handled, and the suggested audit entry is not consistent with these guidelines.
- The insurance disallowances remain puzzling. The auditors are aware that the Property, Crime and Auto insurance coverages were part of a package policy that included other facilities, and significant documentation has been provided (including the bank statements) reflecting the insurance payments and the specific portion attributable to The Cambridge House. The inconsistent nature of the disallowances (only four of the twelve months of the policy were disallowed) also provides pause. It is the provider's contention that more than enough documentation has been provided to document these expenses. The worker's compensation adjustments appear to disallow the entire expense for the year despite documentation that reflects that payments were made. Again, there was more than enough documentation provided to document these expenses. Regarding the disallowed insurance finance charges, the above statements also apply, and the provider takes the position that these entries need to be handled in accordance with how each insurance type is treated.

Unnecessary Bank Fees

The provider disagrees with the finding of \$1,890.00 of unnecessary bank fees. The provider is not aware of a banking institution in this market that does not charge for wires and ACH's and various other necessary services. Again, the citations provided by the auditors are not on point, and the Prudent Buyer standard as noted in Section 2103 of HIM 15 does not provide a basis for disallowing these costs.

Personal Employee Purchase

The provider disagrees with this finding. Proof that the items in question were/are at the facility (photos demonstrating such) and proof of payment (via an expense report) have been provided. The provider is not aware of any further documentation that is reasonably necessary.

2016

Unsupported Expenses

The provider disagrees with the finding of \$163,808.24 in unsupported expenses. The primary categories of this finding involve Property Taxes, various insurances, and several miscellaneous entries, which are addressed as follows:

- Property Taxes of \$63,600 have been inappropriately disallowed. There appears to be a substitution of a cash-based accounting system in contradiction of HIM 15 guidelines, and the cite used to justify the adjustments does not appear to be on point. Lastly, HIM 15 section 2305 appears to indicate how these accrued expenses should be dealt with, and the suggested audit entry is not consistent with these guidelines.
- The various insurance disallowances remain puzzling. The auditors are aware that the Property, Crime and Auto insurance coverages were part of a package policy that included other facilities, and significant documentation has been provided (including the bank statements) reflecting the insurance payments and the specific portion attributable to The Cambridge House. The inconsistent nature of the disallowances (only eight of the twelve months of the policy were disallowed) also provides pause. It is the provider's contention that sufficient documentation has been provided to properly document these expenses.

Unnecessary Bank Fees

The provider disagrees with the finding of \$5,692.17 of unnecessary bank fees. The provider is not aware of banking institutions in this market segment that do not charge for wires and ACH's and various other necessary services. Again, the citations provided by the audit team are not on point, and the Prudent Buyer standard as noted in Section 2103 of HIM 15 does not provide justification for disallowing these costs.

Nonallowable Depreciation

The provider has provided documentation for the items that relate to the \$101.16 of depreciation. There should not be a question that the window treatments and garbage disposal are at the facility. It has also presented evidence of payment for the items. As such, it is not reasonable to presume that these items were gifts and inappropriately depreciated. Further, even if the items were gifts, per HIM Sections 102 and 600, there would still be allowable depreciation expense for these items.

Based on the proposed entries, the "estimated overpayment" amount appears to be incorrect. For sake of discussion only, the facility will address the rate period of July 1, 2015 through June 30, 2016 as an example. It appears the only disallowance in the report or findings that impacts this rate period would be the amount that is disallowed from the home office examination (which is under appeal). If the entire proposed disallowance of \$855,679.32 impacted only 2014, the per day rate reduction would approximate \$19.46, not \$41.12. If the proposed disallowance was allocated evenly for the three years, \$285,226.44 per year, the per

day rate reduction would approximate \$6.50, not \$41.12. In any case, it appears that a significant correction is necessary here.

Again, The Cambridge House remains committed to accurately and appropriately reporting allowable costs and properly filing cost reports and providing care and services to the individuals that rely on it, in conformity with the applicable rules and regulations.

Auditor's Comments

Property Taxes – The Rules specifically state that the cost report should be prepared using the accrual basis. Accruals are allowable with the expectation that they are paid within a reasonable amount of time after the year end. Per the tax office of Sullivan County and the TNTrustee.org website, the property taxes for The Cambridge House have not been paid since 2010. Expenses must be paid within a reasonable amount of time to be claimed as an expense on the cost report under the accrual method.

Insurance – The insurance was determined to be allocated to the facility. The reason for the partial disallowance was that evidence was not received proving that all months were paid within a reasonable amount of time. The documentation that was received supported some months as fully paid, while other months were only partially paid. Therefore, we disallowed the portion that was not paid. Documentation for all months was requested on February 3, 2020, but was never received.

Unnecessary Bank Fees – It is the auditor's position that there were excessive wire fees transferring money in and out of accounts. Based on \$17,425.00 in nonsufficient funds disclosed and disallowed by the provider on the 2015 cost report, it appeared that the provider was having difficulty making payments timely. Bank statements were requested on January 17, 2020, to determine whether these wire transfers were made unnecessarily due to last-minute paying of expenses, or if they were incurred in the normal course of business. We have allowed all supported wire transfer fees, while the remaining fees have been deemed unsupported.

Personal Expenses – The items in question were shipped directly to employees or non-employee addresses. There were four Cali king bed skirts included in the items disallowed, and auditors verified that the facility does not have any king beds.

Nonallowable Depreciation – The garbage disposal was never placed in service and was sitting in storage with the unit missing parts. This was verified during field work through a tour of the facility accompanied by the maintenance staff. The window treatments were shipped to the administrator's home address.

Estimated overpayments – The home office disallowance total of \$855,679.32 impacted years 2014 and 2016 and was allocated to The Cambridge House. As a result of the adjustments of these allocated expenses, the Medicaid Program made estimated overpayments of \$239,831.38 to the nursing facility. The overpayments were \$110,953.15 for the 12/31/14 fiscal year end period that set the 7/1/15 rate and \$128,878.23 for the 12/31/16 fiscal year end period that set the 7/1/17

rate. These adjustments and overpayments are incorporated into the estimated overpayments made to the facility by the Medicaid Program of \$1,006,717.94, computed from July 1, 2015, through June 30, 2018, in Finding 1 above.

2. **Residents Inappropriately Charged for Covered Items**

Finding

The Cambridge House inappropriately charged Medicaid residents' trust fund accounts for Medicaid covered items. The facility charged 22 Medicaid residents the full cost of non-stocked diapers that were specifically requested by the residents. The facility is only allowed to charge residents the difference between the diapers stocked by the facility and the diapers specifically requested by the residents. The cost of the stocked items inappropriately charged to Medicaid residents totaled \$5,468.01 for the period January 1, 2015, through September 30, 2017.

No. 93-2 of the *Medicaid Bulletin* states, “. . . diapers, cloth and/or disposable, is a NF responsibility and considered a covered service.”

No. 94-1 of the *Medicaid Bulletin* states, “For covered items, the NF may charge no more than the difference between the cost of an item and/or service it provides, and one specifically requested by name by the resident.”

As a result of the inappropriate charges, the resident trust fund accounts for 22 Medicaid residents have been improperly charged \$5,468.01 for Medicaid covered items.

Recommendation

The Cambridge House should not charge Medicaid residents for covered items. The facility can only charge residents the difference between the cost of the diaper stocked by the facility and the cost of the specific diaper requested by the resident. The facility should establish adequate procedures to ensure compliance with applicable laws and regulations relative to the protection of resident trust funds. The facility should reimburse the 22 Medicaid residents or their authorized representatives a total of \$5,468.01.

Management's Comment

The provider's initial response requested the “relevant statutory citations” for this finding, which it does not appear were supplied. The facility did receive the calculation that purports to support the proposed adjustment. However, where the numbers came from is not known as the former administrator did not have knowledge of them and further, the likelihood of the washers handling 13,861 loads per year or 38 loads per day (24/7 split between two

machines) is not possible. Lastly, the facility did eliminate the use of non-disposable diapers in late 2017. Interestingly, the laundry and incontinent supply costs for 2018 and 2019 are materially higher than previous years, which indicates that the cost of disposable incontinent products is more expensive than the alternative, which also negates this proposed adjustment.

Auditor's Comment

The following relevant statutory citations are noted in the finding and are listed again:

No. 93-2 of the *Medicaid Bulletin* states that “. . . diapers, cloth and/or disposable, is a NF responsibility and considered a covered service.”

No. 94-1 of the *Medicaid Bulletin* states, “For covered items, the NF may charge no more than the difference between the cost of an item and/or service it provides, and one specifically requested by name by the resident.”

The cost per cloth diaper schedule was given to the auditors by Suzanne Rich, Administrator of The Cambridge House. The calculation for charges due back to the residents was based on that information.

3. Commingling of Resident Trust Funds With Operational Accounts

Finding

The Cambridge House failed to take adequate measures to safeguard resident trust funds as required by federal and state laws. The facility regularly transferred funds from the trust fund bank account to the facility's operational bank account.

The facility lacked adequate documentation and proper authorization from either the residents or their authorized representatives for withdrawals in 11 of the Medicaid resident trust fund accounts, totaling \$663.12 for the period January 1, 2015, through September 30, 2017.

Title 42, *Code of Federal Regulations*, Part 483, Section 10, states that the facility must “hold, safeguard, manage, and account for the personal funds of the resident deposited with the facility.” It further 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,” and “the system must preclude any commingling of resident funds with facility funds or with the funds of any person other than another resident.”

Chapter 1200-13-6-.10(4) of the *Rules of the Tennessee Department of Finance and Administration* states, “Personal funds held by the provider for Medicaid patients used in purchasing clothing and personal incidentals must be properly accounted for with detailed

records of amount received and disbursed and shall not be commingled with nursing facility funds.”

Recommendation

The Cambridge House should immediately establish adequate internal controls to ensure compliance with applicable laws and regulations relative to protection of resident trust funds. The facility should establish and maintain a system that assures that each resident’s personal funds entrusted to the facility are properly accounted for and not commingled with other funds of the facility.

Adequate documentation must be maintained to support deposits and withdrawals for the resident trust fund accounts. The facility should reimburse 11 Medicaid residents or their authorized representatives a total of \$663.12 for January 1, 2015, through September 30, 2017.

Management’s Comment

This appears to be a new finding that was not addressed at the on-site exit conference, the formal exit conference, or in any previous communication. As this is a new item, one would be provided with the support for the finding, which was not found in the transmittal package. Accordingly, there doesn’t appear to be a basis for this finding.

Regarding the last paragraph of the finding, it is our understanding from the formal exit conference, “that this proposed adjustment was going to be further reviewed by the audit staff. Particularly, to ascertain if the disbursed funds were signed for by a ‘nurse’ or a member of the activities or social services team.” There does not appear to be any evidence that this was done. Please confirm and advise what the results of this review were.

Auditor’s Comment

Per our formal exit conference, the auditors agreed to further review the finding. Based on further review, we discovered the commingling of the accounts. Copies of the resident trust fund bank statements were supplied with the draft report showing evidence of the funds being inappropriately transferred to the facility’s operational account.

The \$663.12 that the facility lacked in adequate documentation and proper authorization from either the residents or their authorized representatives for withdrawals in 11 of the Medicaid resident trust fund accounts was discussed at the formal exit conference. The auditors agreed to review any evidence to ascertain if the funds were signed for by a “nurse” or a member of the activities or social services team; however, no evidence was ever provided.

4. Insufficient Surety Bond Coverage for the Resident Trust Fund

Finding

The Cambridge House failed to maintain an adequate trust fund surety bond to protect resident funds. The amount of the surety bond was not sufficient to cover all funds held in trust. As of September 1, 2017, and September 6, 2017, the resident trust fund balance was \$61,345.05 and \$63,098.28, respectively, while the coverage under the bond was limited to \$60,000.

Section 68-11-906(f), *Tennessee Code Annotated*, states, “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.”

Recommendation

The Cambridge House should maintain controls to ensure compliance with applicable laws and regulations for the protection of resident trust funds. The facility should increase the surety bond as necessary to provide coverage for all money held in trust at any point in time.

Management’s Comment

It should be noted that for a period of several days in September 2016, the balance in the Resident Trust Fund did exceed the bond amount. However, the reason for this was that the facility did not transfer from the Resident Trust Fund the Resident Liability for the previous month, due to an oversight which was corrected after several days. As such, the balances of the residents in the Resident Trust Fund never exceeded in aggregate the bond amount and accordingly, no resident funds were “at risk.”

SUMMARY OF MONETARY FINDINGS AND RECOMMENDATIONS

Source of Overpayments

Rate reduction (see Finding 1)	\$ 1,006,717.94
Residents inappropriately charged for covered items (see Finding 2)	\$ 5,468.01
Unsupported Withdrawals (see Finding 3)	<u>\$ 663.12</u>
Total	<u>\$ 1,012,849.07</u>

Disposition of Overpayments

Due to the State of Tennessee	\$ 1,006,717.94
Due to residents or their authorized representatives	<u>\$ 6,131.13</u>
Total	<u>\$ 1,012,849.07</u>