

Secretary of State **AUDIT REPORT**

Report No. 2000-17 • April 17, 2000

Department of Veterans' Affairs: Special Review of the Oregon Veterans' Home



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Summary

PURPOSE

This audit was requested by the agency. Our audit included a review of accounting controls, facility utilization and the agency's level of contract management expertise for a long-term care facility, the Oregon Veterans' Home.

RESULTS IN BRIEF

- Significant accounting controls appear to be in place and functioning effectively.
- Measures are being taken by the Oregon Department of Veterans' Affairs (the department) and the contractor to address the nursing staff shortage experienced by the home.
- The department has made significant progress in developing expertise at managing a contract for a long-term care facility.

RECOMMENDATIONS

- We recommend that the department use admission and departure records maintained by the department's onsite Admissions Coordinator to certify the accuracy of the contractor's census reporting.
- We recommend that the department consider applying for Medicaid certification for the home in order to admit veterans in need of Medicaid assistance. The department also should consider admitting certain non-veterans to increase occupancy.
- We recommend that the department bill the contractor for the state's share of the prescription drug savings. The first bill should be for the department's cumulative share of the savings to date, with monthly billings thereafter.

AGENCY RESPONSE

The department generally agrees with the recommendations.

INTRODUCTION

The mission of the Oregon Veterans' Home (the home) is to provide high quality long-term care for qualified veterans residing in Oregon. The home, located in The Dalles, opened in the fall of 1997.

BACKGROUND

The Oregon Legislature authorized the construction of a state veterans' home in 1993. A feasibility study recommended construction of a 151-bed facility within the area of Clackamas, Marion, Multnomah, and Washington counties based on projected need. Bids were solicited from cities and counties in the target area; however, no satisfactory bids were received. Bids were then solicited statewide, resulting in the selection of a site in The Dalles, Wasco County. Private parties donated the land, and the United States Department of Veterans' Affairs (VA) and Wasco County

funded the construction of the home. The home was completed in 1997; the first resident was admitted that fall.

The Oregon Department of Veterans' Affairs (department) owns the 151-bed facility that consists of three 42-bed wings and a 25-bed unit dedicated to the treatment of veterans with Alzheimer's disease and related disorders. Two of the wings and the special care unit are now open with a total resident count of approximately 100 veterans. The department relies on a contractor, Diversified Health Services (contractor), to manage the daily operation of the home. The contractor has extensive experience managing long-term care facilities, including veterans' homes in other states. The current contract extends through September 2000.

The contractor manages the home with a licensed Nursing Home

Administrator and 125 employees. The department provides oversight with three onsite state employees, including the Oregon Veterans' Home Executive Officer (Executive Officer).

The department currently pays the contractor \$97.25 per resident day and receives payments of \$50.55 from the VA and \$65.00 from the resident for each resident day. In addition to the contract payment from the department, the contractor keeps all Medicare payments that are for occupational and physical therapy services or for residents certified to need more intensive care.

AUDIT RESULTS

Accounting Controls

Our objective in reviewing accounting controls at the home and the department was to determine if adequate control existed over census reporting; resident, VA, and

Medicare billing and receipt processes; and the resident trust funds.

We interviewed department staff at the home and at the department's headquarters in Salem. We also interviewed contractor employees, including the Business Office Manager. We obtained the following documents from the department's General Accounting section for November 1999:

- Census reports
- Resident payments
- Contract payment
- Per diem billing to the VA
- Medicare billings and receipts
- Reconciliations

We gained an understanding of the processes and controls being used. We then performed the following tests of contractor records:

- Compared internal census records to the census reports sent to the VA, the department and the contractor's corporate headquarters.
- Compared census admission and discharge dates with related independent department records.
- Selected a monthly census report, recalculated monthly care charges to residents and compared them to payment records maintained by the contractor.
- Examined deposit and disbursement records and the monthly reconciliation for the resident trust funds for November 1999.

As a result of our work, we determined that significant controls appear to be in place and operating effectively. We found no instances of noncompliance with applicable regulations, laws, and contractual requirements tested.

A strong control environment exists for the home. The department has implemented specific policies

and procedures for the home. The onsite Executive Officer, a department employee, provides daily oversight of the home. The Executive Officer is responsible for monitoring contract performance, and has access to contractor records at the home. The VA and the Oregon Department of Human Services - Senior and Disabled Services Division (SDSD) also annually conduct site visits and monitor various aspects of the home's operations.

Payments to the department from residents and the VA, and the department's monthly payment to the contractor are all based on the daily resident census. The department's controls for the contractor's census reporting were generally adequate but can be strengthened. From the contractor, the department receives weekly and monthly census reports and copies of every resident admission and departure form. This information is used to identify any discrepancies in the reported census counts. The Executive Officer also tracks the daily census and approves the monthly census report that is submitted to the VA to bill the per diem payment.

An onsite employee of the department (the Admissions Coordinator) maintains admission and departure records for the home that are separate from the contractor's records. However, the department does not use these records to verify the accuracy of the census reporting by the contractor.

The department, as owner of the home, receives Medicare payments for contractor-billed services. These payments go to the contractor after the department reconciles them to the billings. The department's accounting staff meets periodically with the contractor to resolve unreconciled items.

The contract requires the contractor to administer the resident trust funds which are personal funds

belonging to the residents. The contractor's Business Office Manager is responsible for both the custody and accounting for these funds. We reviewed procedures for the deposit and disbursement of resident funds and identified controls, such as dual authorization by the resident and a business office staff member for cash disbursements to residents. Invoices (for checks paid to vendors) and receipts (for cash disbursements to residents and deposits to resident accounts) are kept with records of each resident's monthly account activity. Trust account checks require the signatures of two staff members. A monthly reconciliation between the account ledger, checkbook, and bank statement must be reviewed and approved by the contractor's Nursing Home Administrator. In addition, the contractor has a surety bond for its administration of the trust funds.

Through our review, we determined the contractor generally has adequate accounting controls for the resident trust funds. However, we found several blank checks in the trust account checkbook that were presigned. We notified the Nursing Home Administrator and the Business Office Manager that this practice rendered the dual signature control ineffective, and were assured that the practice would cease immediately.

We recommend that the department use admission and departure records maintained by the department's onsite Admissions Coordinator to certify the accuracy of the contractor's census reporting.

We recommend that the department periodically review the resident trust accounting records. The review should include verifying that checks in the trust account checkbook are not presigned.

Agency Response: *We agree to review the current method for gathering and validating census reporting to see if a more efficient*

and effective method can be found. Since the census figures are utilized by various staff members at OVH, ODVA, and DHS [contractor], we will meet with the appropriate parties to develop policies and procedures that will document our agreement.

We agree. The contractor, DHS, has already taken appropriate action concerning this issue. The Executive Officer will, as a part of contract administration duties, complete periodic reviews of the resident trust accounts.

Home Utilization

Our objective in reviewing the occupancy rate of the home was to determine why the home is only approximately two-thirds full after being open for over two years, and to recommend possible options to increase occupancy.

Our review consisted of:

- Reading the Oregon Veterans' Home feasibility study.
- Reviewing applicable laws, regulations and rules.
- Examining committee minutes, agreements and proposals for nursing training programs in the vicinity of the home.
- Reviewing agency and contractor marketing efforts.
- Discussing with the department options to increase occupancy of the home.

In 1991, the department commissioned a feasibility study that resulted in the 1993 Oregon Legislature approving the construction of the Oregon Veterans' Home. This study recommended construction of a 151-bed facility within the target area of Clackamas, Marion, Multnomah and Washington counties based on demographic analysis of the future need for skilled nursing beds. The study determined that the facility could be self-supporting with 125

occupants after 20 months of operation.

Bids were originally solicited from cities and counties in the target area, but no satisfactory bids were received. Bids were then solicited statewide, with Wasco County submitting the winning proposal. However, while the home was built in The Dalles, 85 miles east of the target area, the facility's planned capacity remained at 151 beds.

We were told that the distance from a major metropolitan area and the lack of a skilled nursing program in the vicinity of the home has resulted in a nursing staff shortage. As a result of this shortage, one 42-bed wing of the home has never opened. At the end of February 2000, there were 19 approved applications and 11 applications in process for admission to a general care wing. Until this wing is operational, it will not be possible to achieve the necessary occupancy level to break even.

To address the nursing staff shortage, the department and the contractor have worked with area medical and long-term care providers to develop training programs through Columbia Gorge Community College. The college began a certified nursing assistant (CNA) program in January 1999, graduating 74 CNAs the following August. The Executive Officer and Nursing Home Administrator are also working with the college to establish a licensed practical nurse/registered nurse (LPN/RN) program. The college is seeking permission from the Oregon Department of Community Colleges and Workforce Development and the State Board of Nursing to implement this program. If granted, the LPN/RN program, along with the CNA program, could solve the staffing shortage at the home.

We also were told that the home's distance from a major metropolitan area decreased the demand for

admissions as veterans preferred to remain closer to their families.

As another technique to increase occupancy, the department and the contractor jointly market the home to potential residents by developing annual marketing plans. These plans use strategic and market analysis to set communication and marketing goals and objectives and identify the strategies, tactics, and time frames necessary to achieve them.

If the nursing staff shortage in skilled nurses is solved and the occupancy rate of the home continues to be below break even, the department should consider options to increase occupancy. One option, participating in the Medicaid program, could also save money for the state General Fund.

To increase occupancy, the department could obtain Medicaid certification for the home and admit veterans needing Medicaid assistance. Currently, the home only admits veterans who can pay the \$65 per day charge without resorting to Medicaid. Wartime veterans who would qualify for Medicaid assistance also would qualify for the VA's need-based assistance. However, the amount of this aid is limited to \$90 per month for a Medicaid recipient in a private long-term care facility; there is no similar reduction for a resident in a state veterans' home.

Allowing Medicaid assistance for Oregon Veterans' Home residents could save the state money. For example, an unmarried wartime veteran with income of \$700 a month in addition to the VA need-based assistance would fall about \$66 a month short of qualifying for admission to the home. The state's share of the Medicaid assistance needed to place the veteran in the home would be about \$40 per month. On the other hand, the state's share of the Medicaid assistance for placement in a private facility would be about \$890 a

month. An unmarried veteran with a monthly income of \$700 who served in peacetime (and thus is not eligible for the VA need-based assistance) would require about \$540 a month as the state's share of Medicaid assistance to be a resident of the home. While higher, the state's Medicaid share would still be less than the \$890 a month required for a private facility.

Additional savings would result for the cost of prescription drugs. Veterans residing in the home qualifying for the VA need-based assistance receive free prescription drugs from the VA; other residents currently receive drugs for a \$2 a month per prescription co-payment. For veterans residing in private facilities, the cost of these drugs would be billed to Medicaid with the state paying its 40 percent share.

An SDDS employee indicated that becoming Medicaid certified would not significantly increase the home's costs or regulatory burden.

A second option for increasing occupancy is to admit non-veterans, such as spouses of veteran residents. Federal regulations permit up to 25 percent of home residents to be non-veterans. However, a department rule currently limits admission to veterans only. To increase occupancy, the department should consider revising the rule to allow admitting non-veterans to the home.

We recommend that the department consider applying for Medicaid certification for the Oregon Veterans' Home in order to admit veterans in need of Medicaid assistance. **We also recommend** that the department consider admitting non-veterans to achieve an occupancy rate sufficient to break even.

Agency Response: *The Oregon Veterans' Home has never suffered from a lack of qualified applicants. The issue has been and continues to be the availability of licensed staff to operate the home. There is a*

national (if not worldwide) shortage of Registered Nurses, Licensed Practical Nurses, and Certified Nursing Assistants. To a degree, this shortage is exacerbated by the somewhat rural location of the home. Clearly, even if the home were located in a major metropolitan area, competition for staff and wages would continue to be an issue. We feel confident that the home will reach its operational capacity within a reasonable period following the hiring of adequate staff by the contractor.

Should we find that it becomes difficult to achieve the residency goals after the home is adequately staffed, ODVA will consider, among other concepts, the recommendations noted in the audit.

Agency Contract Management Expertise

Oversight of a long-term care facility is a new area of responsibility for the department. Our objective was to determine whether the department has developed sufficient expertise to effectively manage the Oregon Veterans' Home operating contract.

We examined the operating contract and department policies and procedures for the home, and interviewed the Executive Officer and the Nursing Home Administrator. We also reviewed the position description and prior experience of the Executive Officer, the department's employee primarily responsible for monitoring the contractor's performance.

We found that:

- The department has implemented specific written policies and procedures for the home, including contract-monitoring activities.
- The position description of the Oregon Veterans' Home Executive Officer is specific in describing contract management duties to be performed, including

committee participation and the review of designated reports. The Executive Officer provides onsite oversight of contractor operations and reports monthly to top department management.

- Department employees periodically visit the home to provide guidance to the contractor on accounting, facility maintenance, and information systems.
- The department has a draft memorandum of understanding with the VA to receive technical advice when requested.
- Annual surveys of the home conducted by the VA and SDDS provide assurance of the quality of care and identify areas needing improvement.

The Executive Officer has extensive experience in the health care field, though not specifically in long-term care. The contractor manages the daily operations of the home through a licensed Nursing Home Administrator, as required by law.

The department has made significant progress in developing the necessary expertise and overall appears to be monitoring the contract effectively.

Contract Management Issue – Pharmacy Cost Savings

During our review, we learned that the VA agreed to provide free prescription drugs to eligible residents of the home beginning December 1, 1998. The VA also provides drugs to non-eligible residents for a \$2 monthly co-payment per prescription, which is paid by the contractor. By its contract with the department, the contractor is required to cover prescription drug costs for each resident up to \$10 per day. As a result of the VA program, the contractor has realized significant savings in prescription drug costs.

The contract was amended to allow the department to receive 50 percent of the contractor's savings in drug costs resulting from the VA program. The amendment defines the savings as the difference between the \$10 resident daily obligation and the actual monthly prescription drug cost.

The Executive Officer estimates that the state's share of the prescription drug cost savings was approximately \$170,000 as of December 31, 1999. However, the department has not billed the contractor for the savings. We were told the primary reason for the delay in collecting its share of the savings was the possibility that the VA might bill the home for past pharmacy services and the cost of drugs provided to non-eligible residents. This possibility would only apply to the period since June 1, 1999, because the VA has formally waived the costs through May 31, 1999. If the VA bills the home after the contractor has paid the state its share of the savings, the bill should be paid 50 percent each by the department and the contractor.

We recommend that the department bill the contractor for

the state's share of the prescription drug savings. The first bill should be for the department's cumulative share of the savings to date, with monthly billings thereafter.

Agency Response: *Generally agree. The agency had delayed billing the contractor, awaiting drug cost information from USDVA, or some conformation that earlier charges were being waived. That information has now been received and the Memorandum of Understanding concerning the USDVA agreement to provide drugs and related services has been signed. Therefore, ODVA has presented the contractor with a billing and will continue to do so in a timely manner as information becomes available from USDVA.*

SCOPE AND METHODOLOGY

In conducting this audit, we interviewed department and contractor staff, read the contract and applicable laws, regulations and rules. We also read the department's policies and procedures for the Oregon Veterans' Home. With respect to accounting controls, we gained an understanding of relevant controls for census reporting, resident and

VA payments to the department, the department's payment to the contractor, the processing of Medicare billings, and the contractor's management of the resident trust funds. We tested those controls and adherence with contract requirements, laws, regulations, and rules by reviewing transactions and documents for November 1999. Our review covered the period from the opening of the home in the fall of 1997 through December 31, 1999.

For the utilization issue, we also read the Oregon Veterans' Home feasibility study, committee minutes, and reviewed the marketing plan for the home.

In addition, for the contract management expertise issue, we reviewed the position description of the Executive Officer and the draft memorandum of understanding for technical advice from the VA, and reviewed annual survey reports of the home prepared by the VA and SDSD.

We conducted this audit from December 1999 through March 2000 in accordance with generally accepted government auditing standards.

This report, which is a public record, is intended to promote the best possible management of public resources. Copies may be obtained by mail at Oregon Audits Division, Public Service Building, Salem, Oregon 97310, by phone at 503-986-2255 and 800-336-8218 (hotline), or internet at Audits.Hotline@state.or.us and <http://www.sos.state.or.us/audits/audithp.htm>.

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The courtesies and cooperation extended by the officials and staff of the Oregon Department of Veterans' Affairs were commendable and much appreciated.

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