STATE OF COLORADO

Sally Symanski, CPA
State Auditor

OFFICE OF THE STATE AUDITOR
303.869.2800
FAX 303.869.3060

Legislative Services Building
200 East 14th Avenue
Denver, Colorado 80203-2211

MEMORANDUM

Date: August 14, 2006

To: Members of the Legislative Audit Committee

From: Sally Symanski, CPA
State Auditor

Re: Follow up on the State and Veterans Nursing Homes Performance Audit, October 2003

This memo provides a follow up on several issues raised in the *State and Veterans Nursing Homes Performance Audit* dated October 2003. Overall, the audit raised concerns about the Department of Human Services' lack of sufficient controls and procedures to ensure that the homes are operated in a self-sufficient and cost-effective manner. The audit reported on the financial losses experienced by the homes during Fiscal Years 2000 through 2003 and made recommendations directed at helping the homes achieve self-sufficiency. Our follow-up indicates that some improvements have occurred. However, significant efforts are still needed to place the homes on a sound financial footing.

Background

The Division of State and Veterans Nursing Homes (Division) is located within the Department of Human Services. The Division's role, as outlined in Section 26-12-101, et. seq., Colorado Revised Statutes (C.R.S.), is to oversee state-owned nursing homes which provide skilled nursing and domiciliary care primarily to honorably discharged veterans and their spouses, widows, and in some instances, parents of deceased veterans. The Division currently oversees six facilities that provide skilled nursing care (Fitzsimons, Florence, Homelake, Rifle, Trinidad, and Walsenburg) and one domiciliary, or assisted living unit (at Homelake). Each facility is Medicaid-certified and licensed by the Colorado Department of Public Health and Environment. Fitzsimons is the only facility of the six that is Medicare certified. Additionally, five of the homes are certified by the US Department of Veterans Affairs (VA) to receive federal funds in support of the care of veterans; the Trinidad Home is the sole facility not VA-certified.

The Trinidad, Florence, Homelake, Rifle, and Fitzsimons homes are all directly operated by the Division on behalf of the State and operate on a state fiscal year. The Director of the Division appoints the administrator for each of these five homes, and the administrator reports to the Director. All employees of these homes are state employees. The Walsenburg Home is operated by the Huerfano County Hospital District (District) under contract with the Department of Human Services. The Walsenburg Home's fiscal year is based on the calendar year. The District appoints the administrator for the Walsenburg Home, who reports to the District rather than the Director of the Division of State and Veterans Nursing Homes. The State has a permanent full-time project manager located at the Walsenburg Home who is responsible for monitoring the facility's operations. The project manager reports to the Director of the Division.

Status of the Homes Under TABOR

In general, the homes' operations are funded through patient revenues, third-party payments such as various pension payments, Medicaid, and, in the case of VA-certified homes, by VA per diem payments, as opposed to state general funds. Section 26-12-110, C.R.S, provides that any state nursing home or group of homes shall constitute an enterprise under TABOR as long as the conditions defining an enterprise under Article X, Section 20 of the State Constitution are met. For TABOR purposes, the five homes directly operated by the Division have been treated as one enterprise, and the Walsenburg Home has been treated as part of the Huerfano County Hospital District enterprise.

In Fiscal Year 2003 the construction of the Fitzsimons Home was funded by a combination of approximately $15.5 million in federal funds and $9.4 million in state general funds. As a result, the group of Division-operated homes exceeded the 10 percent limitation on state and/or local grants, thereby disqualifying the group as a TABOR enterprise. With the exception of Fiscal Year 2003, the homes have qualified for enterprise status by remaining below the 10 percent limitation. At the time of this follow up, the homes' TABOR status had not been finalized for Fiscal Year 2006; however, it is anticipated that the five homes will qualify as an enterprise under TABOR for the year.

State and Veterans Nursing Homes Financial Performance

The October 2003 audit reported that during Fiscal Years 2000 through 2003, of the six state-owned homes only Homelake had positive net operating results overall for the period. The audit identified several weaknesses in the Division's oversight of facility operations which contributed to the homes' operating losses and lack of financial stability. First, the audit found that the Division lacked a formal rate review process to ensure that facilities were setting rates at a full cost-recovery and competitive level. Second, the Division did not have adequate procedures and controls to ensure that budgets were monitored and compared with actual financial performance.

The October 2003 audit recommended that the Department of Human Services establish a formal, documented plan for the long-term operational stability of the state and veterans homes, including (1) performing a market analysis to determine if the homes' rates are competitive; (2) implementing a process for reviewing private room rates set annually by each facility to ensure rates are set at a full cost-recovery level; (3) evaluating expenditures at each facility to identify possible cost reductions; (4) reviewing each facility's budget-to-actual information periodically during the fiscal year; and (5) implementing measurable budget goals into the evaluation process for nursing home administrators. The Department agreed with the recommendation and provided an implementation date of May 2004.

To determine if the October 2003 recommendation has been implemented, we reviewed current financial data for the homes, the Department's current policies and procedures for setting daily patient, or service rates, and the Department's current budgeting and monitoring process. Overall, we concluded that while the Department has improved some processes, and some homes have improved their performance, the Department has not fully implemented the recommendation. We also noted that most of the homes continue to experience operating short falls.

Net Operating Results

One of the Division's primary goals is to establish the financial independence and self-sufficiency of the state and veterans homes. Historically, the homes have not typically received general funds to support ongoing operations. Therefore, it is important that the homes be operated in a manner that enables them to generate enough revenue from patients, pension payments, and other sources, such as Medicaid and other federal programs, to cover their costs. Homelake has received some general fund appropriations on an annual basis to support its domiciliary. For Fiscal Year 2006, the domiciliary received general fund appropriations of approximately $168,000.

As stated above, the October 2003 audit found that the homes were not able to operate self-sufficiently on a consistent basis. In total, from Fiscal Year 2000 through Fiscal Year 2003, the homes experienced net operating losses of about $6.6 million; Fitzsimons contributed $5.4 million to the loss, largely attributable to the start-up costs at the facility and certain operational problems during the initial months. During this time Homelake was the only home to show a net profit on operations for the period ($852,000 from Fiscal Years 2000 through 2003).

During our follow up we reviewed financial data for the homes during Fiscal Years 2004 through 2006. Our review indicates that for the period, two of the five Division-operated homes (Florence and Rifle) showed a net gain on operations; the other three operated at an overall loss. Although the Fitzsimons Home had losses over the period, it showed considerable improvement. The Walsenburg Home operated at an overall loss of $125,402. Net operating results for the homes for Fiscal Years 2004 through 2006 are shown in Table 1. In total, over the three-year period, the homes experienced an overall net operating loss of about $7 million. During this period, it appears that Florence generally subsidized the other homes.

Table 1. Colorado Department of Human Services
State and Veterans Nursing Homes
Net Operating Results[1]
Fiscal Years 2004 through 2006
(Brackets indicate a net loss for the year)

Facility	2004	2005	2006[2]	Total
Florence	$622,483	$874,407	$554,390	$2,051,280
Homelake[3]	($32,447)	$88,408	($387,929)	($331,968)
Rifle	$407,289	($294,979)	$134,395	$246,705
Trinidad	($440,947)	$94,339	($477,475)	($824,083)
Fitzsimons	($5,396,686)	($2,055,851)	($569,784)	($8,022,321)
Subtotal	($4,840,308)	($1,293,676)	($746,403)	($6,880,387)
Walsenburg[4]	($195,957)	($115,449)	$186,004	($125,402)
Total	($5,036,265)	($1,409,125)	($560,399)	($7,005,789)

Source: Colorado Financial Reporting System (COFRS) and Walsenburg financial statements.
Notes:
[1]Net operating income does not include capital outlay or capital construction revenue. Net operating income does include depreciation expense.
[2]Financial information presented for 2006 for Florence, Homelake, Rifle, Trinidad, and Fitzsimons is through June 30, 2006, but prior to final closing adjustments.
[3]Net operating results do not include the domiciliary.
[4]Walsenburg is shown separately in the lower section of the table because the Huerfano County Hospital District is responsible for covering operational shortages at this facility and also has the rights to any excess revenues. Walsenburg has a December 31 fiscal year end, unlike the other five homes which have a June 30 fiscal year end. Thus, information shown above for Walsenburg is for 2003 through 2005 for the periods ending 12/31/03 through 12/31/05.

Division staff report that the operating difficulties are primarily attributable to changing market conditions, more alternatives for long-term care, and decreasing occupancy rates (occupancy rates are discussed later in this memo). All of these factors have an adverse affect on revenue generation and the ability to sustain operations, perform routine facility maintenance, and maintain staffing levels.

Nursing Home Rate-Setting

The six state and veterans nursing homes have two basic billing structures that are used to charge patients: (1) the rates set by the homes for private pay residents, and (2) the rates for Medicaid-eligible patients. Medicaid rates are established by the Department of Health Care Policy and Financing. The October 2003 report found that the Division did not have a formal rate review process to ensure that the facilities are setting private pay rates at full cost-recovery and competitive levels. For example, for Fiscal Year 2002, all five state-operated homes had private rates that were established at levels below their cost per day.

We reviewed financial information for Fiscal Years 2004 through 2006 for all five state-operated homes to determine if private pay rates were sufficient to cover the actual operating costs of the homes on a per patient basis (the Walsenburg Home was excluded from this analysis because it sets its private rate independently of Division guidance or oversight; final determination of the private pay rate at Walsenburg is subject to the approval of the Huerfano Hospital District Board). Per patient day cost is calculated by dividing total costs by the number of patient days. Our review indicates that the homes continue to set rates at a level that does not ensure full cost recovery. As shown in Table 2, in Fiscal Year 2005 two homes had established private rates that exceeded its costs (Florence and Trinidad). However, by Fiscal Year 2006 only one of the homes had private rates that were established at levels above their costs per day (Fitzsimons).

Table 2. Colorado Department of Human Services
State and Veterans Nursing Homes
Comparison of Increase in Revenue Per Patient Day to
Increase in Cost Per Patient Day
Fiscal Year 2004 through 2006[1]

	2004			2005			2006		
	Private Rate	Medicaid Rate	Cost Per Patient Day	Private Rate	Medicaid Rate	Cost Per Patient Day	Private Rate	Medicaid Rate	Cost Per Patient Day
Florence	$187.00	$156.12	$176.59	$200.00	$162.76	$188.55	$205.00	$178.25	$213.30
Homelake[2]	$172.00	$169.33	$187.25	$168.00	$173.88	$189.87	$168.00	$190.39	$236.12
Rifle	$187.00	$184.48	$201.92	$200.00	$184.97	$228.40	$204.04	$200.38	$228.20
Trinidad	$152.00	$151.00	$154.41	$160.00	$164.06	$152.24	$165.00	$161.47	$181.52
Fitzsimons	$219.00	$185.08	$317.54	$279.00	$186.56	$294.55	$279.00	$192.39	$278.55

Source: Colorado Financial Reporting System (COFRS), Department Census Certification Summary, the Department's annual report, and Medicaid cost letters for May 2004, 2005, and 2006.
Notes:
[1]Fiscal Year 2006 data is through June 30, 2006, but prior to final closing adjustments.
[2]Amounts do not include the domiciliary.

We also compared actual revenue received from operations and cost on a per patient day basis for the five state-operated homes during Fiscal Years 2004 through 2006. Overall, costs exceeded revenues on a per patient day basis for all three fiscal years. During this period, only Florence had revenues that consistently exceeded costs. A comparison of cost per patient day to revenue per patient day for each of the five homes is shown in Table 3 on the next page.

Table 3. Colorado Department of Human Services
State and Veterans Nursing Homes
Comparison of Increase in Revenue Per Patient Day to
Increase in Cost Per Patient Day
Fiscal Year 2004 through 2006[1]

	2004			2005			2006		
	Per Patient Day			Per Patient Day			Per Patient Day		
	Revenue[2]	Cost	Difference	Revenue[2]	Cost	Difference	Revenue[2]	Cost	Difference
Florence	$195.08	$176.59	$18.49	$213.75	$188.55	$25.20	$229.64	$213.30	$16.34
Homelake[3]	$185.03	$187.25	($2.22)	$196.08	$189.87	$6.21	$204.80	$236.12	($31.32)
Rifle	$214.78	$201.92	$12.86	$218.27	$228.40	($10.13)	$232.77	$228.20	$4.57
Trinidad	$143.44	$154.41	($10.97)	$154.60	$152.24	$2.36	$168.51	$181.52	($13.01)
Fitzsimons	$199.64	$317.54	($117.90)	$246.14	$294.55	($48.41)	$268.55	$278.55	($10.00)
Totals	**$937.97**	**$1,037.71**	**($99.74)**	**$1,028.84**	**$1,053.61**	**($24.77)**	**$1,104.27**	**$1,137.69**	**($33.42)**

Source: Colorado Financial Reporting System (COFRS) and Department Census Certification Summary.
Notes:
[1]Fiscal Year 2006 data is through June 30, 2006, but prior to final closing adjustments.
[2]Amounts do not include general funds, capital outlay, or capital construction revenue.
[3]Amounts do not include the domiciliary.

Rate-setting requires thorough analysis because of its significant impact on the bottom line. For example, setting private pay rates below the actual cost of operations results in an ongoing operating deficit and poor financial performance. However, setting private pay rates at a level that is not competitive with market rates may result in low or declining census and, ultimately, poor financial performance.

The Division reports that each home is now required to prepare and submit an annual strategic business and marketing plan to identify facility initiatives and goals. These plans include a detailed competitive analysis to ensure rates are set at a level high enough to achieve full cost recovery. Additionally, rates are now being reviewed and approved annually by the Division Director. Nonetheless, these efforts are not sufficient to fully address the homes' financial short falls. We noted areas where financial oversight and accountability still needs to be improved, as discussed below.

Budget Review and Financial Accountability

As mentioned previously, the October 2003 audit identified several deficiencies related to the Division's budgeting process. Specifically, budgets were set at the beginning of the year and were not reviewed to adjust for each facility's actual census and other operating data. Expense budgets were not considered to be "census sensitive" and were not revised if an actual census was below targeted figures. In addition, budgets were not established or reviewed on a per patient day basis. The audit also found that the homes' administrators have not been held accountable for financial performance of the homes they oversee. Division staff report that each nursing home administrator now has an individual performance objective regarding the financial performance and cost-efficiency of his or her facility. Additionally, the Division has created budget-to-actual variance reports and consolidated financial statements that are to be submitted to each state-operated home's administrator on a monthly basis. However, we found that while the consolidated financial reports have been provided on a monthly basis, the budget-to-actual reports have not been completed or provided by the Division to the homes since February 2006. The Division reports that it is currently working with the Department's Information Technology Unit to automate the budget-to-actual reports. However, as of June 30, 2006, the automated reports had not been finalized.

Additionally, as of the end of Fiscal Year 2006, the Department was in the process of finalizing a contract with Piñon Management, a private management and consulting firm that specializes in improving nursing homes with substandard operations, to provide consulting services at the five state-operated homes from July 2006 through June 2007. The Walsenburg Home, which is operated by the Huerfano County Hospital District, is not included in the Piñon contract. The Department initially contracted with Piñon in December 2003 to provide management services for the Fitzsimons Home (Piñon's role in managing Fitzsimons is discussed later in this memo). The new contract's Statement of Work will require Piñon to provide services such as a monthly review of the facilities' key financial benchmarks to identify trends. The financial measures to be evaluated include, but are not limited to, accounts receivable days outstanding compared to goals and monthly and year-to-date comparisons of actual operating profits and losses to budgeted amounts. The Department reports that the new contract will cost approximately $475,000.

While the Department has taken steps to improve rate setting procedures and its budgeting process, our current review indicates that generally the homes are still struggling to operate self-sufficiently and that the Department has not fully implemented recommended improvements that are needed to establish operational stability for the homes.

Recommendation No. 1:

The Department of Human Services should ensure that the state-operated state and veterans nursing homes become self-sufficient by:

a. Continuing to perform annual market analyses and working with each nursing home administrator to ensure that patient rates are set at a full cost recovery level.

b. Continuing to work with the Information Technology Unit to create an automated reporting process to compare actual and projected revenues and expenditures. Until the automated report is available, the Department should continue to manually prepare a formal, documented monthly comparison of actual to projected performance. The report should be provided timely to each of the nursing home administrators and used to monitor each home's financial operations and make any necessary adjustments.

Department of Human Services Response:

Budget reviews for each fiscal year are being performed with each home by the Division Director, the Division Business Manager, and the Chief Financial Officer from Piñon Management to develop realistic rate-setting and solid financial performance. In addition, the nursing home administrators are being held accountable for their monthly variances based on key performance indicators (KPIs). KPIs have been in place for the past six months; however, we are in the process of standardizing them for each home.

a. Agree. Implementation date: October 31, 2006.

Each facility did develop its own marketing plans for Fiscal Year 2006 that included a market analysis and established patient rates at a full cost recovery level. Marketing plans will continue to be produced on an annual basis. The Division Director will continue to review and approve the marketing plans for the state-operated homes. Fiscal Year 2007 will be completed by October 31, 2006.

b. Agree. Implementation date: August 31, 2006.

The Division will continue to meet with the Information Technology Unit to create an automated report that compares actual and projected revenues and expenditures. In the interim, the Division Business Manager will prepare a manual monthly and year-to-date comparison of actual to projected performance at a consolidated level. The report will be delivered to the nursing home administrators on a monthly basis the week after the official state reporting close. As of the July 2006 close we will prioritize the monthly actual to projected report for each nursing home, but need to stress that the manual reports are extremely time intensive and may require additional resources to support the manual process until the report is automated.

State and Veterans Nursing Home at Fitzsimons

The Fitzsimons Home accepted its first resident in October 2002. The US Department of Veterans Affairs (VA) provided funding for about $15.5 million of the Home's total $24.9 million construction costs, or about 62 percent. State general fund appropriations for the Home totaled $9.4 million, or 38 percent of the construction costs. The October 2003 audit identified concerns related to the financial management of the Fitzsimons Home. In Fiscal Year 2003, the Fitzsimons Home experienced a loss of about $5.4 million. Based on the facility's poor financial performance, the October 2003 audit recommended that the Department ensure that Fitzsimons achieve self-sufficiency by: (1) establishing and implementing a formal, documented monthly comparison of actual to projected performance and a process for assessing the ability of the facility to reach break-even status and (2) using this review to identify significant variances in revenues and expenses and taking timely action to improve performance.

Subsequent to the October 2003 audit report, the Colorado Department of Public Health and Environment (CDPHE) and US Department of Veterans Affairs issued separate reports that cited the facility with numerous violations of state and federal health standards and issued directives that prevented Fitzsimons from accepting new admissions until conditions were acceptable. These violations were largely attributed to the operational and management deficiencies at the home. Due to the concerns over patient care and financial stability of the home, Governor Owens appointed a task force which recommended that Piñon Management take over the management responsibilities of the home. Piñon managed the Fitzsimons Home from December 2003 through June 2005. CDPHE lifted its freeze on admissions in March 2004, while the VA lifted its freeze on admissions in August 2004.

As shown earlier in Table 1, we reviewed financial data for all the homes for Fiscal Years 2004 through 2006. Our review indicates that while the Fitzsimons Home's financial situation has improved, the facility continues to operate at a loss. Fitzsimons experienced operating losses all three years: about $5.4 million in Fiscal Year 2004, $2.1 million in Fiscal Year 2005, and $570,000 in Fiscal Year 2006. According to Division staff, in Fiscal Year 2005 Fitzsimons received $821,000 in federal grant revenue from the Governor's Office and a general fund appropriation of approximately $2.8 million. Division staff reported that this assistance was provided to fund deficiencies related to the start-up of the home and subsequent financial losses the facility experienced. The $2.1 million loss we noted above for Fitzsimons for Fiscal Year 2005 does not include this additional revenue.

Although Fitzsimons continues to operate at a loss as of the end of Fiscal Year 2006, it has decreased its deficit by approximately $4.8 million since Fiscal Year 2004. While the Division has not completed or provided a budget-to-actual variance report to the Fitzsimons administrator since February 2006, Division staff report that Fitzsimons prepares its own budget-to-actual variance report and submits it to the Division on a monthly basis. Division staff review this report to ensure that amounts reported are accurate. Additionally, Division staff indicated that weekly cost reports are provided to Fitzsimons to ensure appropriate cost controls and appropriate spending are occurring. Finally, Division staff implemented a five-year business plan for Fitzsimons, which projects that the facility's occupancy rates will continue to rise to an estimated 89.4 percent in Fiscal Year 2007, when the Division anticipates that the home will show a small gain on operations.

Recommendation No. 2:

The Department of Human Services should continue to monitor census and other operating data at the Fitzsimons Home to ensure that the facility is able to meet future projections and become self-sufficient.

Department of Human Services Response:

Agree. Implementation date: Current and ongoing.

There is ongoing monitoring of daily, weekly, and monthly census at the Fitzsimons Home. The average census at end-of-month July 2006 is 169 residents, which is a 94 percent occupancy level. Also, see response to Recommendation No. 1.

Anticipation Warrants Issued for Fitzsimons Home

The October 2003 audit also noted that pursuant to Section 26-12-113, C.R.S., the Department issued anticipation warrants (bonds) in the amount of $6,045,000 for the Fitzsimons Home on November 1, 2002. The proceeds of the sale of these warrants were to fund: (1) Fitzsimons start-up expenditures, (2) the Debt Services Reserve Fund as security for the payment of principal and interest, (3) certain amounts for working capital, and (4) the cost of bond issuance. The repayment of the warrants are the pledged revenues of all the homes. Staff report that the Department has remained up-to-date with payments towards the anticipation warrants. For Fiscal Year 2005, the Department paid the scheduled amount of $325,000 and had a year-end balance due of $5,120,000. The Department is scheduled to make a $340,000 payment at the end of Fiscal Year 2006.

Walsenburg State Veterans Nursing Home

As stated earlier, the Walsenburg facility is operated by the Huerfano County Hospital District (District) under a contract with the Department. Under the terms of the contract, the District is obligated to fund any operating deficits of the Walsenburg Home. While the State is not legally obligated to fund operating deficits for the Walsenburg Home, the State does bear the ultimate financial risk for the facility because the home is owned by the State.

The October 2003 report noted that the home had experienced financial losses from Fiscal Years 1998 through 2003. Historically, the Hospital District has financed the home's deficits through the operations of the Spanish Peaks Hospital, which is in the same complex as the Walsenburg Home; however, the Hospital operated at a deficit for Fiscal Years 2000 through 2003, which gave rise to concerns about the Hospital's ability to subsidize the home.

We reviewed financial data for the Walsenburg Home and the Spanish Peaks Hospital for Fiscal Years 2002 through 2005. While both facilities showed losses on operations during 2002 through 2004, in Fiscal Year 2005 the Hospital operated at a net profit of about $348,000, while the Walsenburg Home had a net profit of about $186,000. At the end of Fiscal Year 2005, the home owed the Hospital District approximately $1.8 million, which is a decrease of about $1 million from the end of Fiscal Year 2002. Operating information for the home and the Hospital is shown in Tables 4 and 5 on the next page.

Table 4. Walsenburg State and Veterans Nursing Home
Selected Financial Data
Fiscal Year 2002 - 2005[1]

	2002	2003	2004	2005
Revenue	$5,514,039	$5,387,892	$6,179,666	$7,255,457
Net Gain (Loss)	($37,047)	($195,957)	($115,449)	$186,004
Owed to Hospital at Year End	$2,842,860	$2,802,665	$2,059,205	$1,839,971

Source: Office of the State Auditor analysis of Huerfano County Hospital District audited financial statements for 2002 through 2005.
Notes:
[1]The Home operates on a calendar fiscal year.

Table 5. Spanish Peaks Hospital
Selected Financial Data
Fiscal Year 2002 - 2005[1]

	2002	2003	2004	2005
Revenue	$8,273,745	$8,910,664	$8,772,353	$9,523,299
Net Gain (Loss)	($498,386)	($398,024)	($342,413)	$348,243

Source: Office of the State Auditor analysis of Huerfano County Hospital District audited financial statements for 2002 through 2005.
Notes:
[1]The Hospital operates on a calendar fiscal year.

The October 2003 audit recommended that the Department work with the Huerfano County Hospital District to prepare a formal, long-term plan to address future operations at the Walsenburg Home and ensure its financial stability. Although the Department agreed with the recommendation, it noted that while the State has an ongoing presence at the home, the Division lacks direct control over the operations of the home and has limited ability to influence policies and practices. The Department reported that a change in statute would be required in order for it to obtain formal contractual authority over the home. As of Fiscal Year 2006, the Division reports that a statutory change has not occurred and the ability to influence policies and practices over operations at the home remains limited.

The positive results of operations in Fiscal Year 2005 for the Walsenburg Home and the Spanish Peaks Hospital are a favorable sign. However, the Department should continue to make efforts to work with the Huerfano County Hospital District to ensure that the home achieves self-sufficiency.

Recommendation No. 3:

The Department of Human Services should continue to work with the Huerfano County Hospital District to ensure the financial viability of the State and Veterans Nursing Home at Walsenburg and determine what additional steps must be taken to maintain net revenue at a level above costs and continue to reduce the Home's outstanding loan balance to the Hospital.

Department of Human Services Response:

Agree. Implementation date: Ongoing.

We will continue ongoing efforts to work through the project officer to develop formal, long-term plans that provide financial viability of the Walsenburg Home. This will occur through regular administrator and director of nurses meetings, working with Walsenburg leadership, and other mechanisms.

Nursing Home Census Data

The October 2003 performance audit found that the Division lacked specific marketing and outreach goals and objectives to ensure its patient census goals were being met. The audit showed an overall decrease in the homes' occupancy rates for Fiscal Years 2000 through 2002. Specifically, the overall decline in average occupancy rates was about 1 percent, while individual homes experienced declines of up to 6 percent. Based on the findings, the audit recommended that the Department work directly with each facility's administrator to establish specific marketing and outreach goals and objectives. The recommendation also required that the goals be reviewed periodically to ensure that each facility meets the Department's expectations. The Department agreed with the recommendation and reported that it would be fully implemented by December 2003.

Our follow up indicates that the Department has not been able to establish an effective plan to increase patient occupancy at most of the homes. We reviewed census data for Fiscal Years 2003 through 2006 and found that on average, occupancy rates continue to decline. Specifically, four of the six homes experienced a decrease in occupancy rates ranging from 1 percent to 26 percent. Fitzsimons and Walsenburg have increased their average occupancy rates by 18 percent and 19 percent, respectively. See Table 6 for Fiscal Years 2003 through 2006 occupancy trends for each of the homes.

Table 6. Colorado Department of Human Services Occupancy Trends for Colorado State and Veterans Nursing Homes Fiscal Year 2003 through Fiscal Year 2006						
		Average Percent of Licensed Beds Occupied				Total Percentage Change, Fiscal Year 2003 through 2006
		Fiscal Year				
	Licensed Beds[1]	2003	2004	2005	2006	
Florence	110	84%	82%	85%	83%	(1%)
Homelake[2]	60	83%	66%	65%	57%	(26%)
Rifle	100	89%	87%	80%	81%	(8%)
Trinidad	158	77%	69%	70%	64%	(13%)
Fitzsimons	180	69%	69%	65%	87%	18%
Walsenburg	120	74%	77%	80%	93%	19%

Source: Office of the State Auditor analysis of census data contained in the Department's ACHIEVE information system and its annual report for each state and veterans nursing home.
Notes:
[1]Licensed beds remained consistent for all homes for Fiscal Years 2003 through 2006.
[2]Amounts do not include the domiciliary.

Decreases in occupancy are problematic because they mean the homes are caring for fewer patients and consequently, receiving less revenue and are more likely to experience operating losses, as evidenced by several of the homes' financial performance discussed earlier. As previously mentioned, the Department is in the process of finalizing a contract with Piñon Management to obtain consulting services for the Florence, Homelake, Rifle, Trinidad, and Fitzsimons facilities. The contract requires that Piñon provide admissions and marketing consultation to each home on a monthly basis. Additionally, Piñon is required to assist each facility with increasing occupancy rates to 85 percent or higher by offering a census development approach that includes developing a targeted marketing plan for each home.

In addition to the Piñon contract, the Division implemented a procedure beginning in Fiscal Year 2006 that requires each home to submit a strategic business and marketing plan every fiscal year. These plans must contain goals for increasing occupancy rates and strategies to achieve these goals. The Department reports that the Division Director reviews these plans and conducts quarterly monitoring to ensure that the facilities are meeting their stated marketing and outreach goals.

Recommendation No. 4:

The Department of Human Services should continue to work directly with each facility's administrator to establish specific marketing and outreach goals and objectives to ensure optimal occupancy levels are achieved. The Department should continue to review these goals periodically to ensure that each facility is meeting the Department's expectations.

Department of Human Services Response:

Agree. Implementation date: October 31, 2006.

Each facility is developing marketing outreach goals and objectives that will meet the occupancy levels as directed by the Division. The goal would be that each facility maintains an occupancy level at least comparable to the state average in its county in addition to maintaining an occupancy level adequate to cover its costs.

Federal Reimbursement

Finally, as of Fiscal Year 2006, five of the homes including Rifle, Florence, Homelake, Fitzsimons, and Walsenburg are VA-certified. VA-certified facilities are eligible to receive a daily per diem for eligible veterans in accordance with federal law. Prior to December 2001 the State's VA-certified facilities subtracted the VA per diem from monthly billings to the Medicaid program on behalf of qualifying patients. Thus, the VA per diem rate was treated as a third-party payment and reduced the amount paid by the Medicaid program to the homes.

The October 2003 audit raised concerns with the Department's Medicaid billing practices as they relate to the VA per diem. Specifically, the Department had issued a new policy that instructed the nursing homes as of December 1, 2001 to no longer subtract the VA per diem from Medicaid billings. The change resulted in the homes receiving reimbursement of the full Medicaid daily rate in addition to the daily VA per diem. The October 2003 audit recommended that the Department work with the federal Centers for Medicare and Medicaid Services to determine if its Medicaid billing policy in relation to VA per diem payments was appropriate and allowable. If determined unallowable, the Department was required to work with the Department of Health Care Policy and Financing to identify and report all resulting Medicaid program overpayments since the inception of the revised policy.

In December 2004 the Federal Veterans Health Program Improvement Act of 2004 (H.R. 3936) was enacted which stated that VA per diem payments are not to be used to offset Medicaid payments; thus, the Department's treatment of Medicaid and VA reimbursements is appropriate and allowable under the new law.

Audit Report Number 1814