



A REPORT
TO THE
MONTANA
LEGISLATURE

PERFORMANCE AUDIT

Montana State Veterans' Homes

*Department of Public Health and
Human Services*

JUNE 2012

LEGISLATIVE AUDIT
DIVISION

12P-03

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PERFORMANCE AUDITS

Performance audits conducted by the Legislative Audit Division are designed to assess state government operations. From the audit work, a determination is made as to whether agencies and programs are accomplishing their purposes, and whether they can do so with greater efficiency and economy.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Members of the performance audit staff hold degrees in disciplines appropriate to the audit process.

Performance audits are performed at the request of the Legislative Audit Committee which is a bicameral and bipartisan standing committee of the Montana Legislature. The committee consists of six members of the Senate and six members of the House of Representatives.

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June 2012

The Legislative Audit Committee
of the Montana State Legislature:

This is our performance audit on the Montana state veterans' homes. This report presents audit findings and includes recommendations addressing revenues and expenses related to the management of Montana's state veterans' homes. A written response from the Department of Public Health and Human Services is included at the end of the report.

We wish to express our appreciation to Department of Public Health and Human Services officials and staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

TABLE OF CONTENTS

Figures and Tables.....	iii
Appointed and Administrative Officials	iv
Report Summary	S-1
CHAPTER I – INTRODUCTION.....	1
Introduction	1
Background.....	1
Montana Veterans’ Home	1
Eastern Montana Veterans’ Home	2
Legislative Interest in State Homes	2
Audit Scope, Objectives, and Methodologies.....	3
Report Organization	4
CHAPTER II – OPERATIONS OF MONTANA STATE VETERANS’ HOMES.....	5
Introduction.....	5
Basics of State Home Operations	5
Quality of Care and Total Nursing Hours.....	5
Facility Inspections.....	6
Quality Ratings.....	6
Services Offered	7
Facility Populations.....	7
Assistance With Daily Living Tasks.....	9
Other Treatment and Condition Factors	10
Columbia Falls and Glendive Are Similar for Comparative Purposes.....	10
Domiciliary Operations	11
CHAPTER III – SOURCES OF REVENUE FOR MONTANA STATE VETERANS’ HOMES	13
Introduction.....	13
Charges for Residents’ Cost of Care.....	13
Overall Charges to Residents	14
Revenue by Resource.....	14
Cigarette Tax Funding.....	15
Other Sources of Revenue.....	15
Overall Revenue Comparison	15
Review of Cigarette Tax Funding and Cost of Care Calculations	17
Daily Rate Setting Calculations	18
Current Rate-Calculation Statutes Do Not Recognize Cigarette Tax Revenue	19
CHAPTER IV – STATE VETERANS’ HOMES OPERATIONS COSTS.....	21
Introduction.....	21
Cost Reporting.....	21
Comparing Columbia Falls and Glendive Using Cost Reports	22
Other Montana Nursing Homes.....	22
Other State Veterans’ Homes	22
Overall Cost Center Comparisons	23
Overall Staffing Level Comparison.....	24
Trends in Costs by Cost Center	25
Costs at Columbia Falls Higher than Comparison Homes, Increasing	26

CHAPTER V– OPTIONS FOR REDUCING COSTS AT THE MONTANA VETERANS’ HOME.....27

- Introduction27
- Quality Considerations27
 - Selecting Comparable Homes27
 - Cost Center Expense Statements.....28
- Contracting for Service With a Private Provider28
 - Audit Work Assessed the Feasibility and Impacts of Contracting.....28
 - Private Provision of Services at Columbia Falls Delivers Savings, but Quality of Care
Could be Impacted.....30
- Veterans Homes’ in Other States31
 - Contracting Has Had Mixed Results in Other States.....31
 - Costs Associated With Changing to a Contracted Provider31
- Cost Containment Without a Contracted Provider32
 - Workers’ Compensation and Other Employee Benefits More Expensive Than Other
Homes.....33
 - Significant In-House and Contracted Laundry Expenses33
 - Food Service Costs Greater Than Average33
 - Large Social Services Staff.....34
- Cost Reduction Summary34
 - Other Expenses34
- Achieving Cost Savings.....35

DEPARTMENT RESPONSE

- Department of Public Health and Human Services..... A-1

FIGURES AND TABLES

Figures

Figure 1	Previous Address for Home Residents.....	8
Figure 2	Percentage of Residents Requiring Assistance or Dependent	10
Figure 3	Comparison of Daily Rate Between Columbia Falls and Glendive	14
Figure 4	Revenue per Bed Day by Resource.....	16
Figure 5	Cigarette Tax Funding	17
Figure 6	Cost Centers per Inpatient Day	23
Figure 7	Full Time Employees per 1,000 Inpatient Days.....	24
Figure 8	Trends in Selected Cost Centers per Bed Day.....	25
Figure 9	Selected Costs per Bed day at Columbia Falls and Comparison Homes.....	32

Tables

Table 1	Beds and Occupancy Rates.....	5
Table 2	Total Nursing Hours per Day by Facility.....	6
Table 3	Demographics of Nursing Home Populations	9
Table 4	Columbia Falls Domiciliary Expenses and Revenues.....	11
Table 5	Comparison of Total Charges	14
Table 6	Skilled Nursing Costs at Columbia Falls and Glendive	22
Table 7	Potential Contracting Scenarios for Columbia Falls	29

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MONTANA LEGISLATIVE AUDIT DIVISION

PERFORMANCE AUDIT

Montana State Veterans' Homes

Department of Public Health and Human Services

JUNE 2012

12P-03

REPORT SUMMARY

Montana operates quality veterans' nursing homes but could address funding differences between the homes by specifying cigarette tax allocation in statute and the state could save over \$1 million annually through cost containment measures.

Context

In Montana, there are two state veterans' homes. One is located in Columbia Falls and the other in Glendive. A third facility is proposed to be constructed in Butte. The homes provide skilled nursing care to honorably discharged veterans and eligible family members. Care includes basic assistance with daily living tasks and specialized medical treatments, when necessary. Quality of care at both homes is rated by national experts to be above average.

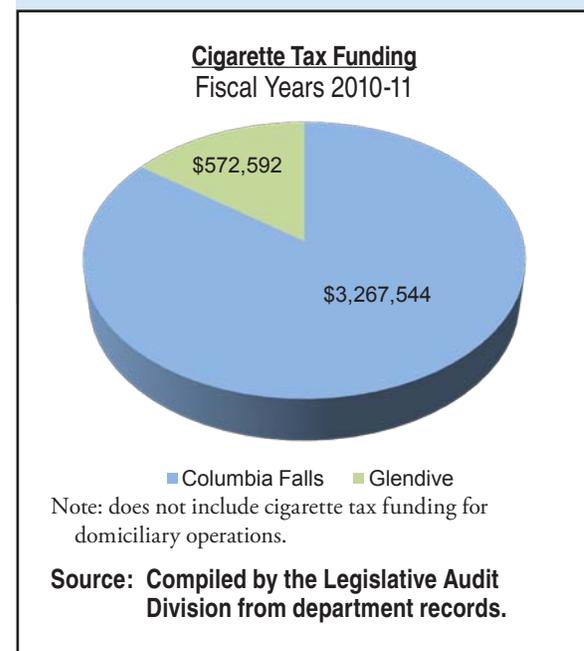
The cost of care is paid for from a variety of sources, including a veteran's personal savings or income, private insurance, Medicaid and Medicare, and two additional sources of funding unique to state veterans' homes: Veterans Administration per diem payments and a state tax levied on cigarettes.

Montana's homes operate under differing management structures. The home in Columbia Falls is managed and operated by the state while the home in Glendive is overseen by the state but day-to-day operations are carried out by a private contractor. This report details our findings related to the funding for each home, costs associated with operating these and comparable homes, and options for decreasing costs while maintaining high quality service.

Results

Several differences exist in funding the state veterans' homes. At the end of fiscal year 2011, the full daily rate at Columbia Falls was \$221.90 while at Glendive it was \$189.50 so Columbia Falls received more revenue from residents themselves. More significantly, however, Columbia Falls also received \$51.20 per patient day from the state's cigarette tax while Glendive received \$12.25 per patient day.

By allocating cigarette tax revenues at a ratio of approximately 4:1 in favor of Columbia Falls, the state provides a subsidy to the cost of care at this facility that is not available to the same degree for residents in Glendive.



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We recommend the Montana Legislature review the allocation of cigarette tax funding to the state veterans' homes to determine if the allocation between homes should be addressed in statute. We also recommend the Department of Public Health and Human Services comply with statutorily-prescribed rate calculation methods or seek legislation to revise calculation procedures to establish the daily rate charged to veterans.

Using data that homes report to the federal government, we compared the costs of Montana's state veterans' homes to one another and other nursing homes. We estimate the average cost of providing skilled nursing care during fiscal years 2010 and 2011 at Columbia Falls was \$284.44 and in Glendive it was \$196.31.

We examined trends in expenses in selected cost centers (social services, laundry, dietary, and employee benefits) and found that expenses per bed day have been increasing more rapidly at Columbia Falls than in other homes. Over a six-year timeframe costs per bed day for these centers increased 76.3 percent at Columbia Falls while at other homes the costs for these centers increased by 21.3 percent. Costs at the Columbia Falls home are higher than comparison homes because of higher staffing levels and increasing costs in specific cost centers.

This audit began with a request from the House State Administration Standing Committee, which specifically asked that our audit address options and recommendations for more efficient operation of the Montana Veterans' Home without compromising quality of service. So, we examined costs at a sample of homes in order to develop options by which the home in Columbia Falls could reduce costs but maintain its high quality.

One of the options for controlling costs is by contracting for the services with a private provider. This service delivery model is currently in use at Glendive. We estimate the state of Montana would benefit from about \$1.7 million in unused cigarette tax revenues being reverted to the General Fund by doing so but a private provider would need to reduce nursing hours by about 17 percent to operate the home on a financially sustainable basis.

We also considered whether costs could be reduced without using a contracted provider. By analyzing costs within existing facility cost centers we identified several expense areas where Montana Veterans' Home costs exceeded the average costs at a set of comparable nursing homes. These expense areas were not related to direct nursing care and if they were reduced to the average level of comparable homes, could save the state up to \$1.3 million annually. We recommend the implementation of a cost containment plan for the Montana Veterans' Home that reduces expenses to a level that reflects normal costs for comparable homes.

Recommendation Concurrence	
Concur	2
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Chapter I – Introduction

Introduction

State homes for military veterans originated in the late 1800s primarily to house veterans of the American Civil War. All 50 states now operate some type of state veterans' home. In Montana, the first veterans' home, known as the Montana Veterans' Home (referred to throughout this report as Columbia Falls), in Columbia Falls, began accepting residents in 1897. The Eastern Montana Veterans' Home (referred to throughout this report as Glendive) was established in Glendive in 1995. A third facility is proposed to be constructed in Butte. Both existing facilities provide skilled nursing care to eligible veterans and their spouses. The state homes are overseen by the Senior and Long Term Care Division of the Department of Public Health and Human Services.

Background

In the years following the American Civil War the federal government attempted to provide homes for disabled war veterans; however, the volume of veterans who were no longer able to support or care for themselves exceeded the government's capacity to provide services. To fill the gap, a number of states founded state-operated institutions to serve veterans. Some states chose to provide housing only while others provided additional services.

The federal Veterans Administration (VA) certifies and provides some of the funding for care at state homes. In order to be eligible for VA payments, the home must be overseen by a state, though the day-to-day operation of the home may be contracted to a nonstate entity. The VA certifies homes for reimbursement eligibility and provides payment on a per-day-of-care basis for nursing care and other services.

VA payments are generally set at an established per diem rate and may not exceed one half of the total cost of care of the service provided. The rest of the cost of services must therefore be provided by other sources. Other sources may include the veteran, the state operating the home, Medicaid, Medicare, or private insurance.

Montana Veterans' Home

The Columbia Falls campus sits on the outskirts of Columbia Falls on the banks of the Flathead River. The facility is licensed for 105 skilled nursing beds and includes a 15-bed special care unit, which specializes in dementia and Alzheimer's care. There is also a 12-bed domiciliary on-site that provides housing, not skilled nursing, for veterans. The main nursing home building was originally constructed in 1970 with

additions in 1974, 1984, 2002 and a remodel in 2009. There are numerous other buildings on the campus as well, including the historic “Old Main” which was the original nursing home and is now vacant.

This facility is both managed and operated by the state of Montana. Certain functions, such as physician services, physical therapy, and some laundry and maintenance tasks, are contracted to private entities but most of the direct care and administrative work is performed by state employees. In addition to VA reimbursement, revenue derived from other federal programs, and private payers, a portion of the costs have normally been covered with state funds raised via a tax on cigarettes.

Eastern Montana Veterans’ Home

This home opened in 1995 and is located in Glendive. Glendive is an 80-bed facility, including a 16-bed designated dementia and Alzheimer’s unit. Unlike Columbia Falls, this facility does not include a domiciliary.

The facility is owned by the state and there is a full-time, on-site administrative officer who is a state employee, as required by VA regulations. Operation of the facility is carried out by a private contractor. The current contractor was awarded the original contract in 1995 and is now on the third iteration of the contract, which began in 2009.

Like other state veterans’ homes, Glendive receives the VA per diem reimbursement (which is passed through the state prior to payment to the contractor). It also generates revenue from Medicare, Medicaid, and private payers, in addition to funding from the state of Montana. The state contributions to Glendive cover only the costs for the administrative officer, major building maintenance and some long-range building projects.

Legislative Interest in State Homes

During the 2011 Legislative Session, there arose new interest in the operations of the two state veterans’ homes. The Joint Appropriations Subcommittee on Health and Human Services requested information related to policy considerations on closing or privatizing Columbia Falls. The Legislative Fiscal Division produced a report that compared the costs of operating Columbia Falls to other facilities and concluded that on average, costs at Columbia Falls were over 143 percent higher and identified employee health insurance, retirement benefits, and workers compensation costs as areas in which Columbia Falls’ costs exceeded comparison homes.

There was also an unsuccessful resolution to require an interim study of the operations of the state homes. The resolution failed to pass out of the House Committee on State Administration on a tie vote. Subsequently, this committee requested that the Legislative Audit Division conduct an audit related to state home operations. The request specifically asked that the audit address:

- ◆ Costs of operating Columbia Falls and Glendive.
- ◆ The effect of privatization efforts on home operation cost and quality.
- ◆ Costs and benefits of privatizing Columbia Falls.
- ◆ Options and recommendations for more efficient operation of Columbia Falls without compromising quality of service.

Following receipt of the audit request, the Legislative Audit Committee prioritized a performance audit of the state veterans' home program.

Audit Scope, Objectives, and Methodologies

The request we received from the House Committee on State Administration formed the basis for developing the scope of the audit. Audit scope was developed to include issues relating to both the costs of operating the state's veterans' homes and the revenues available for these purposes. Although there may be potential to improve efficiency at either of the state homes, our audit work focused on Columbia Falls operations because of the apparent higher degree of state funding at that home and the legislative interest in the subject. We reviewed costs and revenues associated with Glendive as well, but with the purpose of comparing costs to Columbia Falls, not with a focus on increasing Glendive efficiency.

In order to mitigate cost or revenue fluctuations related to short-term occurrences or resident populations, we considered costs and revenues over a multi-year time period beginning in fiscal year 2004 and ending in fiscal year 2011. Where detailed analysis of specific facility operating costs was required, we generally restricted the time period to the past two fiscal years (2010 and 2011). Detailed cost information for both homes (and other Medicaid-certified homes) is available on cost reports that are generated by the homes and submitted to the Center for Medicare and Medicaid Services. The primary comparison of costs and revenues is between Columbia Falls and Glendive, but we also obtained data related to the cost of operating other nursing homes within the state and veterans' homes in other states.

We developed four audit objectives:

1. Determine if the organization and operation of state veterans' homes are similar enough to allow for meaningful comparisons.

2. Identify and compare costs of operating state veterans' homes and determine causes of differences by cost center.
3. Identify and compare sources of revenue for state veterans' homes and determine causes of differences.
4. Determine if Columbia Falls can reduce operational costs while providing comparable services.

To address these objectives, we performed the following types of methodologies:

- ◆ Reviewed state and federal laws, rules and policies regarding state administration of veterans' homes.
- ◆ Interviewed agency and contractor staff regarding home administration.
- ◆ Visited with facility and state staff members at both state veterans' homes.
- ◆ Reviewed studies and reports regarding nursing home operations.
- ◆ Obtained and reviewed resident demographic information for Montana veterans' homes and other nursing homes.
- ◆ Collected and analyzed information related to costs and revenues for Columbia Falls and Glendive.
- ◆ Collected cost information for other nursing homes within Montana and state veterans' homes in other states.

Report Organization

The remainder of this report details our analysis of the audit objectives and contains three recommendations. It is organized in four additional chapters:

- ◆ Chapter II- Operations of Montana State Veterans' Homes
- ◆ Chapter III- Sources of Revenue for Montana State Veterans' Homes
- ◆ Chapter IV- State Veterans' Homes Operations Costs
- ◆ Chapter V- Options for Reducing Costs at the Montana Veterans' Home

Chapter II – Operations of Montana State Veterans’ Homes

Introduction

Nursing homes, like any health care facility, are unique from one another in some way. The physical environment, types of services provided, or quality of care available naturally differs from one home to another. This can make direct comparisons between homes difficult. Therefore, our first objective was to determine if the organization and operation of Montana’s state veterans’ homes are similar enough to allow for meaningful comparisons between one another and to other homes.

Basics of State Home Operations

Both state veterans’ homes in Montana are dedicated to providing skilled nursing care to honorably discharged military veterans and their spouses. The homes provide a comprehensive range of nursing services, activities, and food service as well as access to ancillary services such as medical, dental, and rehabilitative care. Both homes are governed by federal regulations (CFR Title 38 Part 51) that outline the requirements for eligibility to receive federal Veterans Administration (VA) per diem payments. These regulations set forth standards related to facility design, services provided, and quality of care. As required by these regulations, both Montana homes are overseen by the state. The Montana Veterans’ Home (Columbia Falls) is operated by the state itself, while the Eastern Montana Veterans’ Home (Glendive) is operated by a private

contractor with a full-time, on-site state administrative officer. Table 1 summarizes operational information for each facility.

Table 1
Beds and Occupancy Rates
Fiscal Year 2011

Area of Operation	Columbia Falls	Glendive
Nursing Home Beds	105	80
Special Care Beds	15	16
Domiciliary Beds	12	0
FY11 Occupancy Rate	84.2%	74.2%
Number of FTE	142	71.5

Source: Compiled by the Legislative Audit Division from department records.

Quality of Care and Total Nursing Hours

An important consideration for an individual choosing a nursing home or for those funding the operations of a home is the quality of care provided; however, it can be difficult to quantify or even describe quality. Certain standards may give an indication of quality, but it is ultimately an individual interpretation of the sum of many parts.

The amount of direct care a resident receives is often considered to be an important contributor to quality, though it alone does not constitute quality.

Federal regulations require that state veterans' homes meet a minimum number of direct care hours per resident day. The minimum rate has been set at 2.5 hours per patient day, although most facilities considered to be providing high-quality care

Table 2
Total Nursing Hours per Day by Facility

	FY10	FY11
Columbia Falls	5.57	5.31
Glendive	4.93	5.08

Source: Compiled by the Legislative Audit Division from department records.

substantially exceed this minimum level. As shown in Table 2 both Columbia Falls and Glendive provided substantially more total nursing hours than this requirement in fiscal years 2010-11.

Facility Inspections

Nursing homes are subject to frequent informal inspections by a wide variety of visitors who are concerned with quality care.

Visitors to each state veterans' home can report quality problems to a state ombudsman. In addition to this kind of frequent informal check on facility quality, all state veterans' homes are subject to annual surveys by the VA. These surveys monitor adherence to 158 individual VA standards. The 2011 VA survey of Columbia Falls noted no deficiencies and a letter from the VA to the facility noted that the survey team was "very impressed with the overall operation and care provided." The 2011 VA survey of Glendive did identify a few areas for improvement.

Because both homes are also certified to receive payments from Medicaid and Medicare, the homes are also surveyed by a Center for Medicare and Medicaid Services (CMS) contractor. In Montana, these surveys are completed by the Department of Public Health and Human Services' Quality Assurance Division. A survey team makes unannounced periodic visits to each licensed nursing home in the state. The survey team notes areas of deficiency and evaluates the scope and severity of any deficiencies. In fiscal year 2011 the survey team identified four deficiencies at Columbia Falls and seven deficiencies at Glendive, all within the same scope and severity code. Each deficiency code reflected that no actual harm was caused to residents.

Quality Ratings

CMS uses its survey results as a basis for assigning quality ratings to individual nursing homes. The ratings are assigned on a one- to five-star basis. Nursing homes with five stars are considered to have much above average quality and nursing homes with one star are considered to have quality much below average.

During the most recent ratings period available, Columbia Falls was rated at five stars overall while Glendive was rated at four stars. This means that both facilities are

considered to be above average in quality with Columbia Falls considered to be much above average. These ratings are generally well-regarded within the nursing home industry but do have some limitations such as different interpretations by individual survey teams and a reliance on self-reported data by nursing home staff.

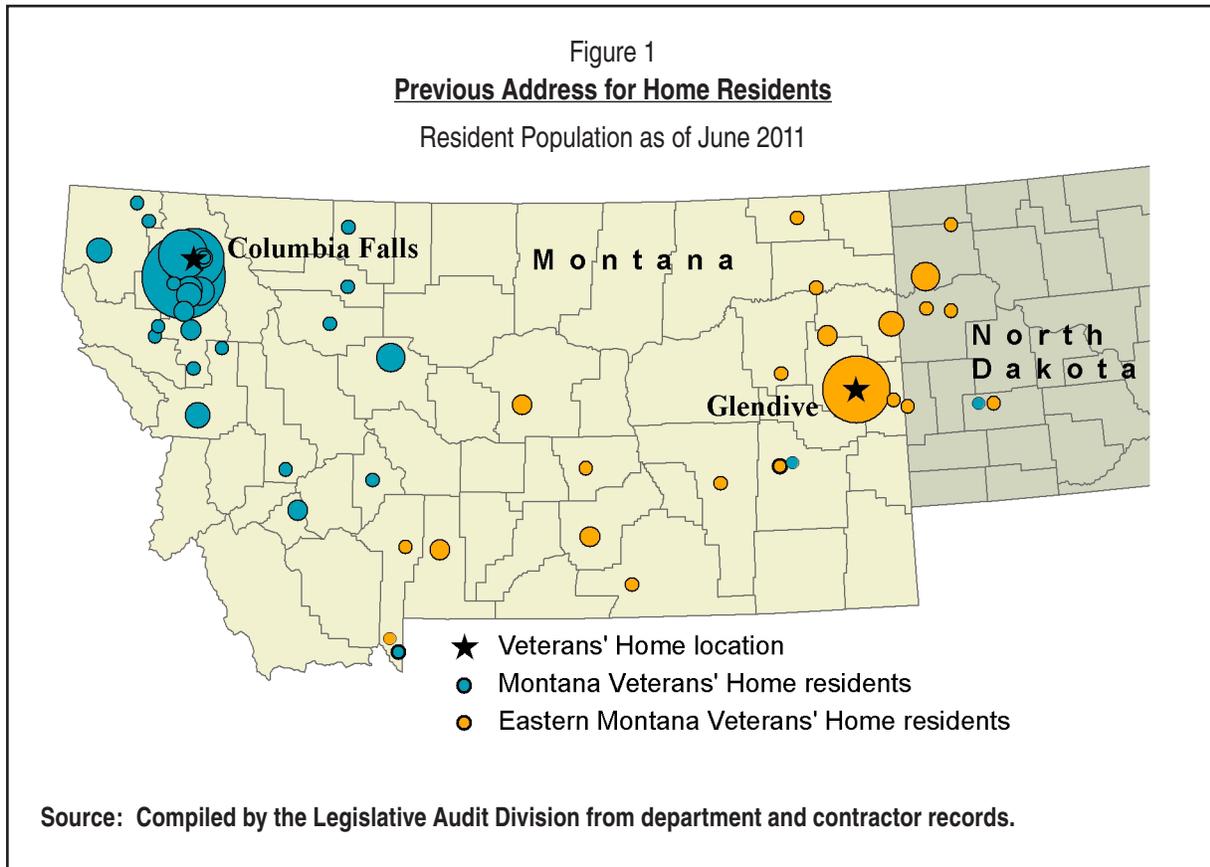
Services Offered

In addition to the regular ongoing nursing care provided to residents, both Columbia Falls and Glendive provide a suite of other services to assist residents. These services include:

- ◆ **Laundry**: Most laundry is handled by outside private contractors at a predetermined cost per pound. A few items are laundered on-site at each facility.
- ◆ **Housekeeping**: Staff members perform a full range of standard housekeeping duties.
- ◆ **Dietary**: Both facilities offer a five-meal-per-day plan that includes continental breakfast, brunch, lunch, dinner, and evening snack.
- ◆ **Social Services**: By federal regulation, both facilities must employ a social worker. Social services employees also serve as primary admissions contact.
- ◆ **Activities**: A range of activities is provided by each facility; volunteer organizations also assist. Activity aides supervise a resident smoking program at each home.
- ◆ **Pharmacy**: Columbia Falls contracts with the VA to provide pharmacy services on-site. Area veterans who are not nursing home residents also have access to the Columbia Falls pharmacy. The Glendive contractor operates a pharmacy offsite.
- ◆ **Other Services**: Both facilities provide physician services and physical, occupational and speech therapists that are billed separately to residents.

Facility Populations

State veterans' homes serve military veterans and their families, though only a veteran is eligible for VA per diem payments. Montana veterans' homes may accept potential residents from any state. Facility staff members indicate that at times an applicant may be homeless and be without family so it can be difficult to determine where the applicant previously lived. Figure 1 displays the previous hometown, if known, for residents of the veterans' homes. The size of a given circle is proportional to the number of residents from that location.



As shown in the figure, both the state veterans' homes operate a lot like other regional nursing homes in terms of admissions. Both Columbia Falls and Glendive source the majority of their residents from the immediate vicinities surrounding the facility. To maintain contact with friends and family, veterans living in the eastern and central parts of Montana are most likely to go to Glendive and veterans living in western Montana are most likely to go to Columbia Falls.

The state veterans' homes serve a population that is predominately male, which is the direct opposite of the average nursing home. Other demographic elements are much more similar between the state veterans' homes and other homes, with the state veterans' home population featuring a somewhat longer average length of stay. The composition of population by age appears fairly similar. Table 3 displays gender, length of stay, and age data for the two state veterans' homes and the national average for nursing homes.

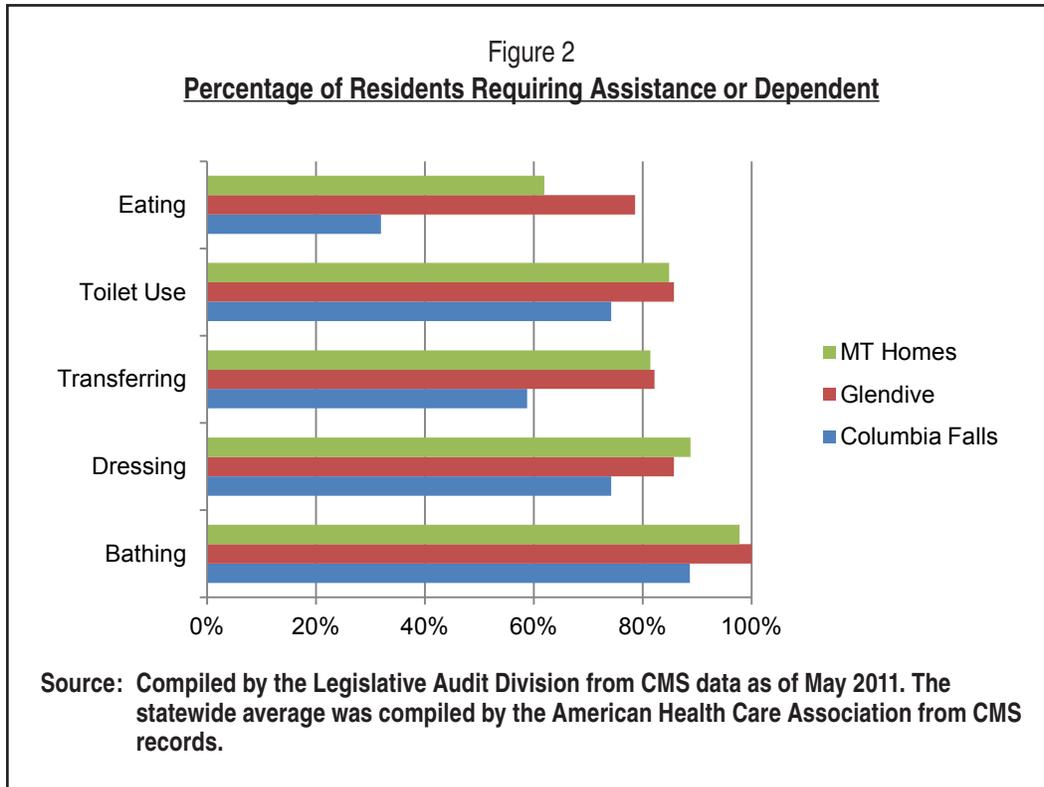
Table 3
Demographics of Nursing Home Populations

Population	National Average	Columbia Falls	Glendive
Male	28.8%	89.6%	90.9%
Female	71.2%	10.4%	9.1%
Mean Length of Stay (days)	835	1106	1014
Over 65 years old	88.3%	91.7%	89.1%
Over 85 years old	45.2%	41.7%	36.4%
Mean age	N/A	81.2	80.1

Source: Compiled by the Legislative Audit Division from Centers for Disease Control and Prevention, contractor and department records.

Assistance With Daily Living Tasks

One factor that may contribute to the cost of operating a nursing home is the amount of assistance its residents require to complete routine tasks. A highly dependent population may require more staff members than a home with an independent population. As part of their reporting to CMS, nursing homes submit information about the assistance their resident populations require. Each resident is classified as either being independent, requiring assistance, or dependent upon nursing staff to perform five basic activities of daily life. The resident population at Glendive is reported to be very near the statewide average for each area, but requires some extra assistance with eating. The Columbia Falls population is more independent than the statewide average for each of the five areas. The following figure summarizes the resident populations for Columbia Falls, Glendive and other Montana nursing homes in these areas.



Other Treatment and Condition Factors

In addition to providing assistance with daily living, the type of medical conditions or treatments required may also impact the costs of nursing home operations. For example, a home with a high number of incontinent patients may require additional medical supplies or incur higher than average laundry costs. Homes also report this data to CMS as part of the survey process. In general, these data appear to depict the average resident at the state veterans' homes as requiring less assistance for incontinence care, ambulation, and specialized rehabilitation than the statewide norms. However, the veterans' home populations have increased needs for pain management. The Columbia Falls population has a markedly lower reported rate of depression than average but higher rates of psychiatric diagnoses and dementia.

Columbia Falls and Glendive Are Similar for Comparative Purposes

With the exception of the domiciliary, the services provided to veterans by Columbia Falls and Glendive are similar. The gender mix of populations at state veterans' homes differs significantly from other nursing homes. Other demographic and care factors do not appear significantly different; however, veteran populations have some unique treatment needs. Overall the veteran population appears to require less assistance with

activities of daily living than do residents of other nursing homes, and operations appear similar and allow meaningful comparisons.

CONCLUSION

The services and populations of Columbia Falls and Glendive are similar and allow for valid comparisons to be made between the two facilities.

Domiciliary Operations

Through its domiciliary, Columbia Falls provides basic housing and care needs to veterans who do not require full nursing care. Other states provide veterans with domiciliary living at state homes, but in Montana it is unique to Columbia Falls. The facility establishes a separate daily cost rate that residents who have the ability pay. The VA also provides a per diem payment to the facility for each domiciliary resident. On rare occasions, domiciliary residents also qualify for other third party payments such as Medicaid

Table 4
Columbia Falls Domiciliary Expenses and Revenues
Fiscal Years 2010-11

	FY10	FY11
Allocated Expenses	\$683,195	\$681,907
Reported VA Revenue	100,913	115,840
Reported Private Revenue	130,807	149,144
Reported Other Revenue	0	3,231
Remaining Expenses	\$451,475	\$413,692

Source: Compiled by the Legislative Audit Division from department records.

or Medicare. Because a domiciliary setting does not exist in comparison homes, or in the case of other state veterans' homes is significantly different in scale, we have excluded the domiciliary from our analysis. That said, the state does support expenses associated with domiciliary operations. In fiscal years 2010-11, once costs were allocated across all Columbia Falls' various cost centers, the reported cost of operating the domiciliary was about \$680,000. Other sources of revenue covered some of these costs, but the state was left with \$414,000-451,000 in expenses.

Chapter III – Sources of Revenue for Montana State Veterans’ Homes

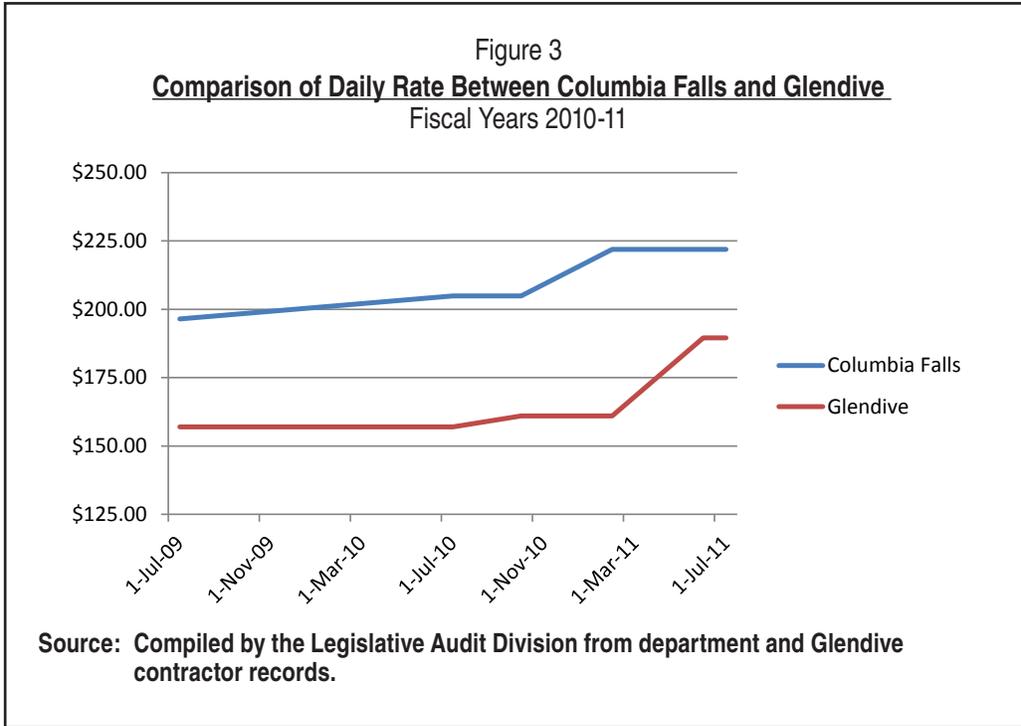
Introduction

Residents at typical nursing homes must pay for the cost of their care with their own savings or income, private insurance, or Medicaid and Medicare, if eligible. Residents of Montana’s state veterans’ homes have two additional sources of funding that help pay for the cost of their care: Veterans Administration (VA) per diem payments and a state tax levied on cigarettes. One of our objectives was to identify and compare sources of revenue at the state veterans’ homes and determine the cause of any differences.

Charges for Residents’ Cost of Care

When an individual is admitted to either the Montana Veterans’ Home (Columbia Falls) or the Eastern Montana Veterans’ Home (Glendive), the veterans’ home is responsible for providing room and board and treating the resident. The resident pays for the cost of care minus any outside resources that he or she may access. By state law, the total cost of care may be calculated either as a per diem rate plus ancillary charges or an all-inclusive rate for the care of residents. Both Columbia Falls and Glendive determine the cost of care based on a per diem rate plus ancillary medical services. The daily rate at each state veterans’ home generally covers room, board, and basic services.

The daily rate at both state veterans’ homes must be reviewed on or before October 1 of each year by the Department of Public Health and Human Services (Department) and may be reviewed additional times during the year as considered appropriate by the Department. If the review indicates that the costs of the veterans’ home have changed substantially since the last review, the daily rate charge can be adjusted to compensate for those changes. Based on our review, each state veterans’ home submitted documentation to the Department related to the daily rate and the rates were approved by Department staff. Columbia Falls charged a higher daily rate than Glendive for both fiscal year 2010 and 2011. The following table shows daily rate adjustments for fiscal year 2010 and 2011 at both state veterans’ homes. At the end of the two-year period, the daily rate at Columbia Falls was \$221.90 while at Glendive it was \$189.50.



Overall Charges to Residents

Payment for ancillary services not included in the daily rate is received by billing residents or other payers specifically for these services in addition to the daily rate. Depending on a resident’s diagnosis, ancillary medical services may include physician services, laboratory testing, prescriptions, immunizations, and physical, occupational, or speech therapy. We calculated the ancillary medical services charges provided to residents in fiscal years 2010-2011 at both veterans’ homes and combined these charges with per diem rates to calculate the total charges to residents. The following table outlines the total amount of charges to residents at the veterans’ homes for fiscal years 2010-2011.

Table 5
Comparison of Total Charges
Average for Fiscal Years 2010-11

	Columbia Falls	Glendive
Charges	\$6,865,907	\$4,381,303
Bed Days	31,912	23,376
Charges Per Bed Day	\$215.15	\$187.43

Source: Compiled by the Legislative Audit Division from department and Glendive contractor records.

Revenue by Resource

The Department’s Reimbursement Office is responsible for billing for services related to residents’ cost-of-care charges at Columbia Falls, though facility staff members do handle billing for some revenue sources, particularly the VA per diem and Medicare part D. The contractor is

responsible for billing for Glendive. The two offices bill Medicaid, Medicare, private health insurance, and patients or persons legally responsible for them for the residents' cost of care discussed in the previous section.

To conduct a comparison of revenue collected from billing residents at Glendive and Columbia Falls we completed an analysis of revenue received from the various resources. To complete this analysis we compared the amount of revenue from each resource. Based on this analysis, Columbia Falls collects more per day for the majority of resources but the largest difference is in cigarette tax funding.

Cigarette Tax Funding

According to §16-11-119(1)(a), MCA, 8.3 percent or \$2 million, whichever is greater, of the cigarette taxes collected under the provisions of §16-11-111, MCA, must be deposited in a special revenue fund for the operation and maintenance of state veterans' nursing homes. Additionally, §16-11-119(2), MCA, states if the money in the state special revenue fund for the operation and maintenance of state veterans' nursing homes exceeds \$2 million at the end of the fiscal year, the excess must be transferred to the state general fund.

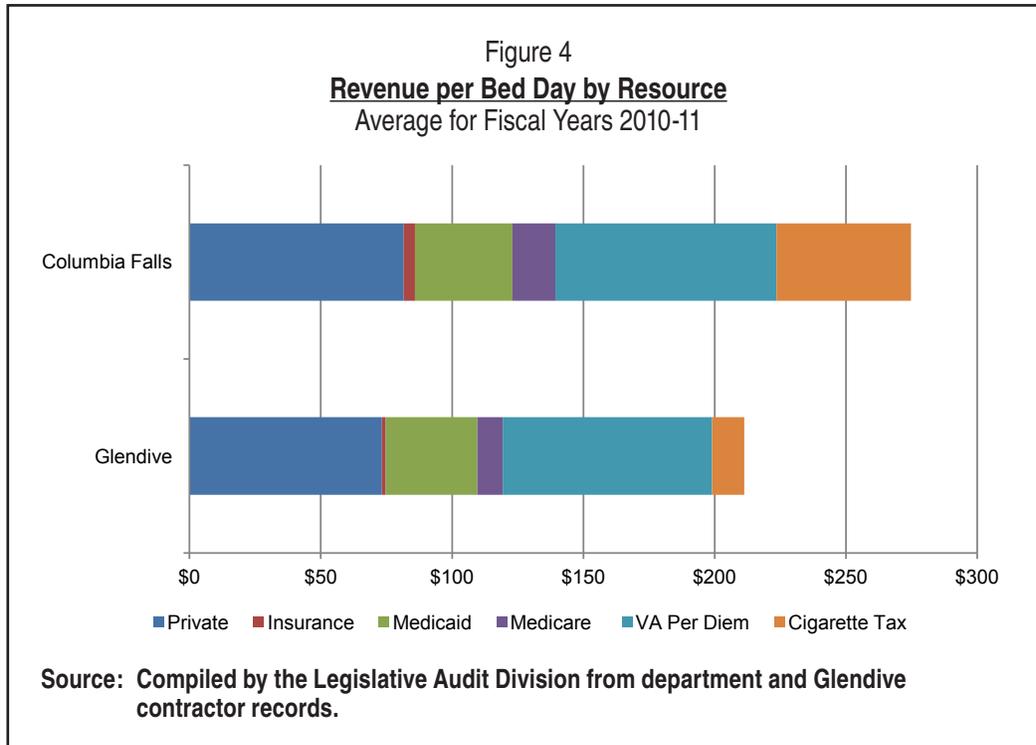
Other Sources of Revenue

In addition to the residents themselves and the state funding through the cigarette tax and VA per diems, state veterans' homes receive revenue from traditional sources such as Medicare, Medicaid, and private insurance. The two homes also receive a small amount of additional revenue from other sources. These include:

- ◆ Columbia Falls leases a portion of its campus to a local sports organization. The teams pay a small fee to lease the land each year. In fiscal years 2010-11 the total revenue collected from leasing averaged \$12,588.
- ◆ Glendive collects additional revenue related to cafeteria and cable television charges. Glendive charges guests and employees for food purchased from the cafeteria. In fiscal years 2010-11 cafeteria revenue averaged \$12,915. Cable television revenue averaged \$1,750.

Overall Revenue Comparison

Over the two-year time period we considered, Columbia Falls received an average of \$275.13 per patient day while Glendive collected approximately \$211.90. The following figure shows the amount of revenue per day by revenue resource.



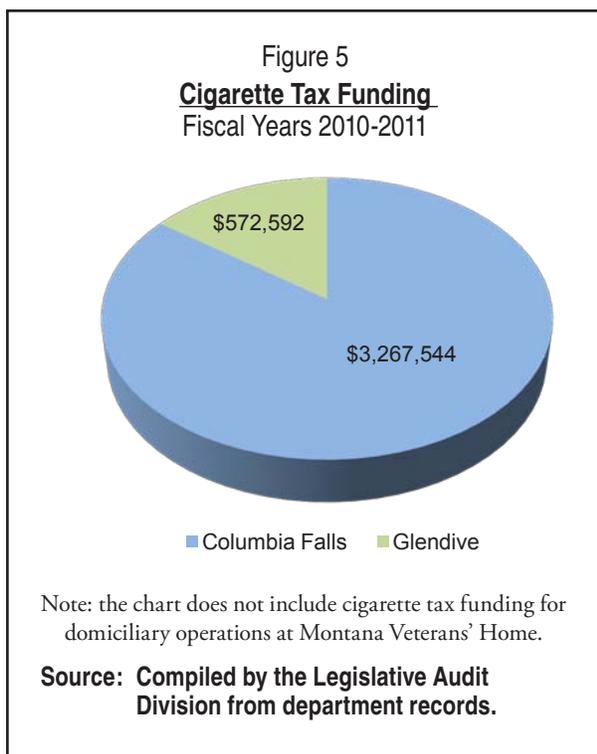
As discussed in the previous sections and shown in Figure 4, the majority of the funding difference between Glendive and Columbia Falls is generated by the cigarette tax funding. In fiscal years 2010-11 Columbia Falls received \$51.20 per day for residents of the nursing home while Glendive received \$12.25 per bed day in cigarette tax revenue. Revenues collected by billing residents for the cost of care also contribute to the differences seen between the two facilities, but the difference in this revenue source is not as significant as the cigarette tax funding. It should also be noted that Columbia Falls charges more per bed day and therefore is able to collect more revenue per bed day.

CONCLUSION

Differences occur in the revenue collected by the state veterans' homes and the cause for these differences relates primarily to the allocation of cigarette tax funding to the veterans' homes.

Review of Cigarette Tax Funding and Cost of Care Calculations

The preceding discussion of charges to residents and revenues for Columbia Falls and Glendive illustrates a significant disparity between the two facilities: Glendive both charges its residents less than Columbia Falls and, at the same time, also collects



less revenue on a per resident basis. Some of this difference is attributable to how the contractor chooses to operate Glendive and the fact that its residents are billed at a lower rate than those in Columbia Falls, but differences in how the cigarette tax revenues are distributed between the two facilities also play a significant role.

During fiscal years 2010-2011, a total of about \$4.7 million in state funding was expended for the operation and maintenance of the veterans' homes via the state tax on cigarettes. Of this total, we estimate that about \$865,000 supported domiciliary operations at Columbia Falls. The remainder contributed to the skilled nursing activities at the two homes. The total for skilled nursing was over \$3.2 million for Columbia Falls and just over \$570,000 for Glendive.

Columbia Falls does have a larger patient census than Glendive, but even when adjusting the cigarette tax funding on a per-bed-day basis Columbia Falls received \$51.20 per day while Glendive received \$12.25—a difference of \$38.95 per day. By allocating cigarette tax revenues at a ratio of approximately 4:1 in favor of Columbia Falls, the state provides a subsidy to the cost of care at this facility that is not available to the same degree for residents in Glendive. The Department has provided an amount to Glendive to cover state oversight and major repairs, but has funded those activities and others at Columbia Falls at a higher level. Residents at Glendive are not provided with equal resources through the use of the cigarette tax.

A third state veterans' home is planned to be constructed pending availability of federal funds. This home will be known as the Southwestern Montana Veterans' Home and will be located in Butte. The home will be operated in a manner similar to Glendive, but the allocation of cigarette tax revenue for this home's operation is unclear. State law does not specify how funding is to be allocated to the homes, but the funding is approved through the appropriations process. Given the increasing need for veterans

nursing services and the current distribution of funding between Columbia Falls and Glendive, now may be a good time for the legislature to consider whether allocation of cigarette tax funding between homes should be addressed in statute. The alternative is to continue allocating funding based on executive branch budget proposals through the appropriations process.

RECOMMENDATION #1

We recommend the Montana Legislature review the allocation of cigarette tax funding to the state veterans' homes to determine whether distribution between homes should be addressed in statute.

Daily Rate Setting Calculations

Calculation of the daily rate or per diem charges for state institutions is designed to be a uniform process. Section 53-1-401, MCA, provides definitions and procedures for calculating per diem charges that should be applied to both Columbia Falls and Glendive. During our review of rate adjustment documentation, we identified both veterans' homes calculated daily rates using costs divided by resident load. However, the costs were not calculated according to the methods described in state law. Columbia Falls does not use the full-time equivalent resident load to calculate the per diem rate that is charged to residents of the facility. Instead it calculates the rate using the total facility capacity. Glendive uses the projected facility population for the upcoming year.

The per diem rate charged to home residents may not match the actual full cost of care. In the case of Columbia Falls, the rate charged to residents will be less than the full cost of care. For Glendive, the rate may vary one way or the other from the full cost of care based upon fluctuations in resident population. The calculation performed does not recognize the revenue available for the operation and maintenance of the facility through the state cigarette tax. If the per diem cost rate at Columbia Falls were calculated according to the law, the rate paid by residents could exceed that which is acceptable to residents. Therefore the Department has made a decision to calculate the per diem cost rate using the total facility capacity rather than the full time equivalent resident load from the previous state fiscal year.

Current Rate-Calculation Statutes Do Not Recognize Cigarette Tax Revenue

Current statutes relating to daily rate setting for state institutions do not recognize the unique circumstances of the state's veterans' homes and the revenues available for these facilities. Existing statutes place the full burden of cost recovery on facility residents without recognizing the state's stated intention to assist in funding the operation and maintenance of the homes. Without including the anticipated revenue from the state cigarette tax, the full range of expected revenues is not considered.

RECOMMENDATION #2

We recommend the Department of Public Health and Human Services comply with statutorily-prescribed rate calculations methods or seek legislation to revise calculation procedures for the state veterans' homes.

Chapter IV – State Veterans’ Homes Operations Costs

Introduction

During the 2011 Legislative session, Legislative Fiscal Division budget analysis indicated that the fiscal year 2010 cost per day for Montana Veterans’ Home (Columbia Falls) was \$289 while for Eastern Montana Veterans’ Home (Glendive) it was only \$67. Understandably, this disparity may have raised questions related to why these two facilities had such divergent costs. The way Glendive operates, some of its costs and revenues are not recorded by the Department of Public Health and Human Services. Our third objective was to identify and compare costs of operating state veterans’ homes and determine causes of differences by cost center. To do so, we first had to identify a common cost comparison tool.

Cost Reporting

Nursing homes that are certified to accept Medicare payments must submit cost information to the Center for Medicare and Medicaid Services (CMS) annually. These reports are used for determining program reimbursement and to support management of federal programs but also provide a detailed accounting of nursing home operations divided into a standard set of cost centers. Data contained on these reports are publicly available for all homes that accept Medicare residents. The reports also segregate costs associated with home operations other than skilled nursing. Therefore, we are generally able to use these reports to make accurate comparisons between homes.

There are certain activities that may not be included on CMS cost reports. For example, the Glendive report does not include costs associated with state oversight of the home or maintenance paid for with state funds because these are not expenses of the entity filing the report. Similarly, the fiscal year 2011 report for Columbia Falls does not include costs associated with resident billing that were incurred by the Department’s Reimbursement Office. To account for these differences, we obtained cost data for these types of activities and added them to the cost report data. This should provide a more accurate version of the true costs of operating these facilities. Our primary comparison is between Columbia Falls and Glendive for fiscal years 2010-11 but we also used cost report data to consider the costs of operating other homes over a longer timeframe. Nursing homes file reports based upon the facility’s designated fiscal year so reporting years may not always match exactly.

Comparing Columbia Falls and Glendive Using Cost Reports

To date, it has been difficult to accurately compare the costs of operating Columbia Falls and Glendive because of the differing management structure. Only a portion of costs at Glendive are recorded by the Department. Even the CMS cost reports are difficult to compare because of the differences in management structures. To make as accurate a comparison as possible, we obtained the cost reports for fiscal years 2010-11 and made manual adjustments to include things such as the state administrative officer wages for Glendive and internal Department fund transfers that were not reflected on the Columbia Falls cost report. Once these adjustments are made, we estimate the average cost of providing skilled nursing care at Columbia Falls was \$284.44 and in Glendive it was \$196.31.

Table 6
Skilled Nursing Costs at Columbia Falls and Glendive
Fiscal Years 2010-11

	Glendive FY10	Glendive FY11	Columbia Falls FY10	Columbia Falls FY11
Total Skilled Nursing Cost	\$4,772,861	\$4,401,402	\$9,152,666	\$8,985,758
Cost per Bed Day	\$189.69	\$202.92	\$293.98	\$274.89

Source: Compiled by the Legislative Audit Division from department records.

Other Montana Nursing Homes

To understand how costs at Columbia Falls compare to other local nursing homes, we also obtained cost report data for 32 other nursing homes in western Montana. These homes are located within similar labor markets. They represent a wide variety of types of homes. Some are managed by public entities, some private. Some are not-for-profit while others are managed for profit. Still others are attached to a hospital while some are stand-alone facilities. We used cost report data as submitted by these homes to make a comparison to operational costs at Columbia Falls and Glendive.

Other State Veterans' Homes

Because state veterans' homes serve a unique population, we also wanted to compare the operation of Columbia Falls and Glendive to state veterans' homes in other states. There are about 130 state veterans' homes though not all offer skilled nursing and not all are Medicare-certified. Of the total, we obtained cost report data for 59 state veterans' homes. These homes also represent a wide variety of home types. Some are state-managed while others are operated by private companies.

Overall Cost Center Comparisons

Cost reports are used to organize and allocate expenses across a predefined set of nursing home cost centers. These centers are those where a nursing home would normally incur costs. The centers include areas such as laundry, plant operations, employee benefits, and administration. Figure 5 displays the total cost for each class of nursing home in each cost center. The costs are displayed on a per-bed-day basis in order to adjust for the size and occupancy rate of each home. As can be seen from the bar chart, there are some cost centers where Columbia Falls is near or below the average for other types of nursing homes and several centers where its costs exceed the comparison groups.

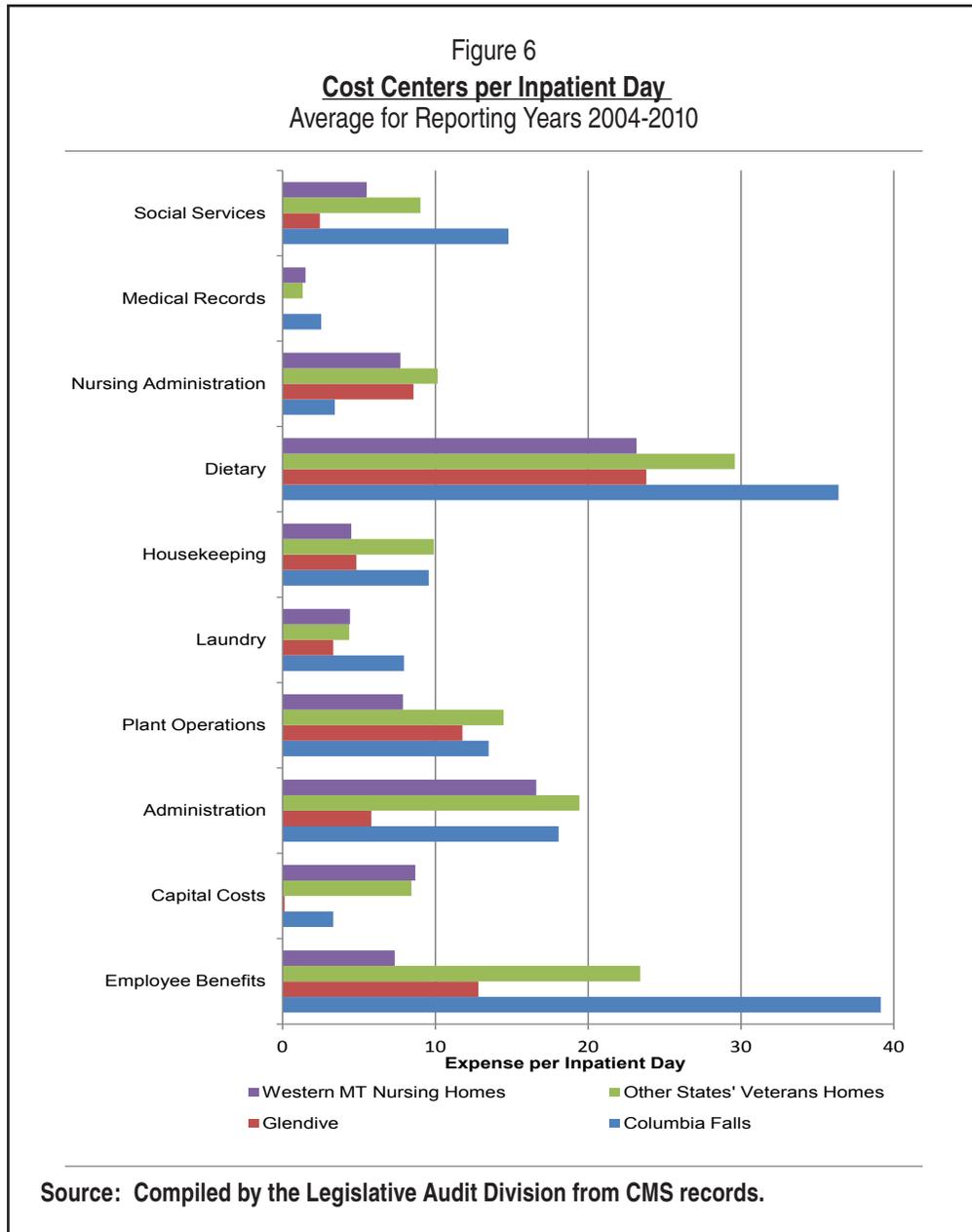
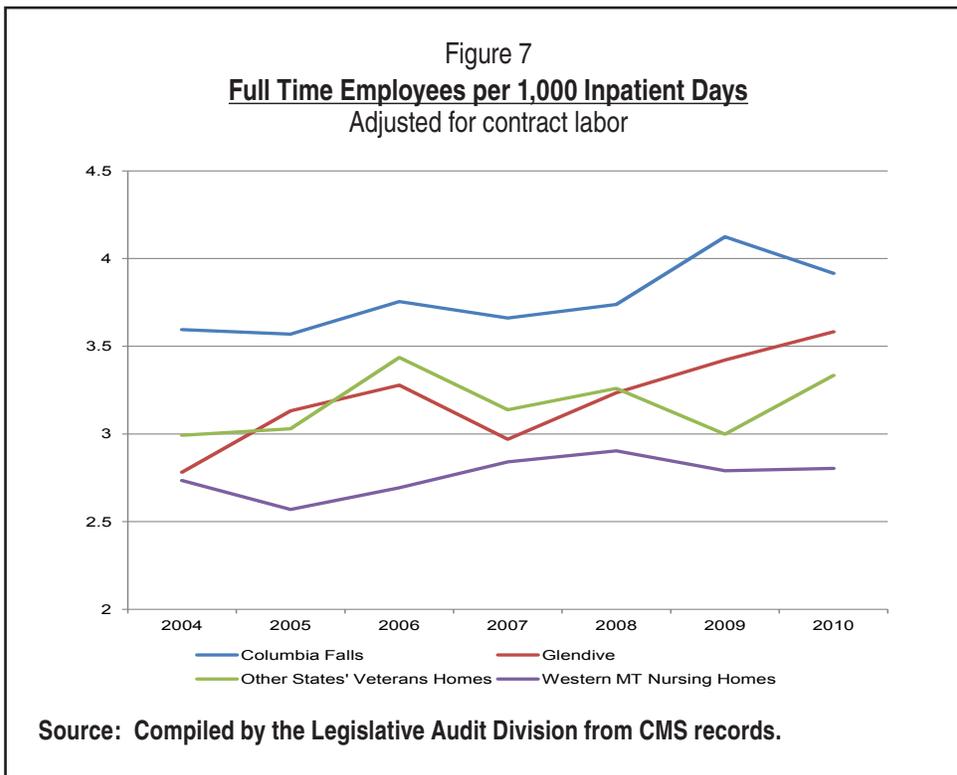


Figure 6 shows that the expense per patient day is higher than the average for other homes in several areas, notably employee benefits, laundry, dietary, and social services.

Overall Staffing Level Comparison

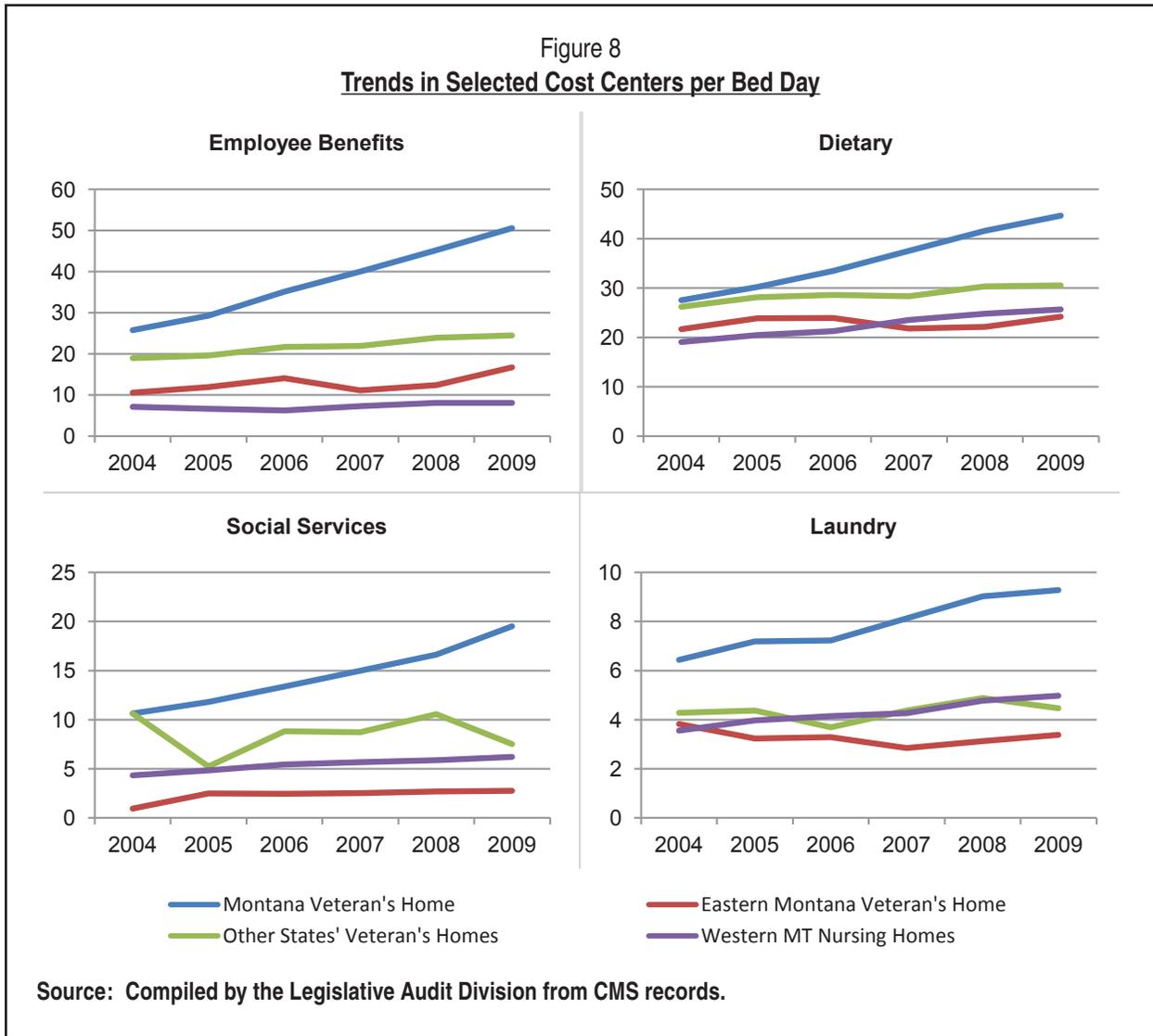
A facility's staffing level can have a significant impact on the quality of care. The VA requires a specified minimum number of hours per day of nursing care and direct care hours are a primary factor for CMS when assigning a quality rating to a nursing home. However, wages and benefits are also the single largest cost area for a nursing home, often comprising more than 70 percent of a facility's costs. Many nursing homes also rely on temporary or contracted labor to fulfill some of their staffing needs so simply looking at the overall FTE at a facility may fail to paint an accurate picture of staffing costs if it fails to include contracted labor. On the CMS cost reports, each facility does report both FTE and contracted nursing labor. Figure 7 depicts the total staffing level at each of the state veterans' homes in Montana, at other western Montana nursing homes, and other state veterans' homes. The total staffing level accounts for contract labor and is displayed in terms of staff per 1,000 inpatient days to account for facility size.



As can be seen in the graph, Columbia Falls features a higher staffing level than other homes. This may help create quality service but also increases costs. The following sections discuss some of the cost centers where Columbia Falls costs exceed the comparison groups.

Trends in Costs by Cost Center

To examine trends in expenses at Columbia Falls and other homes, we examined the costs by center by year over a six-year period. Based on our earlier comparison of all cost centers, we selected four in which Columbia Falls appeared to have a higher than average cost per bed day. The four centers we selected were employee benefits, dietary, social services, and laundry. Figure 8 displays the trends in cost per bed day for these centers.



For these cost centers, the expenses per bed day have been increasing more rapidly at Columbia Falls than in other homes. At the beginning of the period the total cost per bed day for these centers at Columbia Falls was \$70.37 and at the end of the period it was \$124.08. This is an increase of 76.3 percent. At other homes the costs for these centers increased by 21.3 percent.

Costs at Columbia Falls Higher than Comparison Homes, Increasing

Columbia Falls expenses are higher than Glendive and other comparison homes because it features higher staffing levels and expends more resources in specific cost centers such as social services, laundry, dietary, and employee benefits. In addition to a higher average level over the time period we considered, the trends indicate that costs for those centers are increasing more rapidly than in comparison homes. Options for addressing cost containment are discussed in Chapter V.

CONCLUSION

Costs at the Montana Veterans' Home are higher than comparison homes because of higher staffing levels and increasing costs in specific cost centers.

Chapter V– Options for Reducing Costs at the Montana Veterans’ Home

Introduction

This audit began with a request from the House State Administration Standing Committee. That request specifically asked that the audit address options and recommendations for more efficient operation of Montana Veterans’ Home (Columbia Falls) without compromising quality of service. Based on our visits to the home and the empirical data available, Columbia Falls is a high quality facility and the goal should be to reduce costs if possible while maintaining the facility’s quality. This chapter deals with our fourth objective, to determine if Columbia Falls can reduce operational costs while providing comparable services. It considers whether a private contractor could deliver comparable service with reduced costs or whether the state-run facility could reduce specific expense areas while minimizing negative impacts on quality.

Quality Considerations

The previous chapter identified specific cost centers in which Columbia Falls expends more resources than a broad set of comparison homes. By including a broad range of homes, we were able to consider a lot of data and make general comparisons but as a result also included some homes that have achieved cost savings through measures that would not be palatable for other homes. The previous chapter also looked at the overall expenses within the cost centers but did not break down costs within those centers. There may be cost centers in which a reduction in costs is acceptable in some areas but not in others. For example, in food service, one might not want to cut expenses by purchasing lower quality food but might find it reasonable to improve the efficiency in serving food. This chapter will look at a smaller sample of homes that excludes homes of low quality and will examine several cost centers in greater detail.

Selecting Comparable Homes

To select homes similar to Columbia Falls in terms of quality, expected costs, and services provided, we chose a sample of homes from western Montana that excluded one- and two-star CMS-rated homes and also eliminated from consideration very small and very large homes. When possible, we avoided selecting homes that are hospital-attached but included homes with a variety of management structures, including nonprofit, for-profit and publicly run homes. We selected a total of five homes to use for comparison purposes and also included Eastern Montana Veterans’ Home (Glendive).

Cost Center Expense Statements

We obtained the same type of Center for Medicare and Medicaid Services (CMS) cost report data as discussed in the previous chapters but were able to obtain more detailed data for this smaller sample of homes. These reports feature a breakdown of expenses within each cost center that was not available for the larger sample of homes. We obtained cost reports for the years 2010 and 2011 (though the reporting periods may not match exactly). In order to compare the detailed information we looked at the raw expense information before it is allocated (if necessary) across other cost centers.

Contracting for Service With a Private Provider

One of the options available to the Department of Public Health and Human Services (Department) for managing costs at Columbia Falls is contracting for the services with a private provider. This service delivery model is currently in use in Glendive, where a local hospital contracts with the state to operate the facility. This arrangement typically involves the state retaining ownership and financial responsibility for the buildings, while the contractor is responsible for operating the facility and funds operational costs entirely through revenues paid by or on behalf of residents.

Audit Work Assessed the Feasibility and Impacts of Contracting

Because contracting for private provision of services is being used for one of Montana's facilities and has been used in other states, we included analysis of the feasibility and potential impacts of this approach as part of our audit work. Assessing the potential for having a contractor operate Columbia Falls involved addressing several different issues, which are discussed as follows:

- ♦ **State Financial Impact** – the first step in our analysis was assessing the expected financial impact on the state of Montana. This involved estimating the state's ongoing financial responsibility for the facility. We then estimated the average costs for comparable homes that a contractor would be responsible for (including a profit margin) and added these to the state costs to obtain a total cost. This estimated total cost is then subtracted from the current cost of operating the facility to return an estimate of the cost savings to the state resulting from contracting.
- ♦ **Contractor Financial Impact** – the second step in the analysis is to assess whether a potential contractor could operate the facility as a going business concern. This involved estimating contractor operating costs exclusive of any profit margin. This contractor operational cost was then subtracted from estimated revenues to return an operating profit/loss amount and profit margin. If the profit margin is too low given the available revenues, the Department may have difficulties identifying potential contractors to operate Columbia Falls.

- ♦ **Quality of Care Impact** – the final part of the analysis involves assessing potential impacts on quality of care for residents. The estimate of contractor operational costs presumes industry average expenses for variable/indirect costs, but under a contracting proposal, private providers would also be able to increase or reduce nursing hours, which could have impacts of quality of care for residents. Different approaches to managing staff costs by contractors could result in nursing hours increasing or decreasing on a per-bed-day basis.

The following table addresses different contracting scenarios and includes our analysis for each of the three issues discussed above. The table contains data that applies the analysis to three different contracting scenarios identified as “Current State Staffing Model,” “Private Provider Staffing Model” and “Potential Contractor Terms.” Each of these scenarios represents the potential impacts from different approaches to contracting for service provision at Columbia Falls by estimating state financial impacts, contractor financial impacts and the effects on quality of care.

Table 7
Potential Contracting Scenarios for Columbia Falls

		Current State Staffing Model	Private Sector Staffing Model	Potential Contractor Terms
State Financial Impact	State-Funded Costs	703,837	703,837	703,837
	Contractor-Related Costs	7,582,452	6,806,115	7,122,875
	Estimated Total Cost	8,286,289	7,509,951	7,826,712
	Current Total Cost	9,533,192	9,533,192	9,533,192
	Estimated Cost Savings	1,246,903	2,023,241	1,706,480
Contractor Financial Impact	Operating Costs	7,225,785	6,449,448	6,766,208
	Available Revenues	7,133,339	7,133,339	7,133,339
	Operating Profit/Loss	-92,446	683,891	367,131
	Profit Margin	-1%	10%	5%*
Quality of Care Impact	Total Nursing Hours	5.44	3.99	4.52
	Change in Nursing Hours	None	-27%	-17%

*Note: 5% is the target margin for Glendive. State homes in Utah are contracted and home operators receive 5% of revenue.

Source: Compiled by the Legislative Audit Division from department records.

The three potential contracting scenarios are discussed in more detail as follows:

- ◆ **Current State Staffing Model** – this approach assumes the contractor operates Columbia Falls with the existing level of nurse staffing. Other indirect costs not related to nursing care are treated as variable and are estimated based on industry-average expenses. Under this scenario, the estimated total cost is approximately \$8.3 million, versus the current cost of \$9.5 million. This returns savings of approximately \$1.2 million to the state. However, with this staffing model, the contractor would operate the facility at a loss, given the available revenues. Maintaining nursing hours at 5.44 per bed day under this model would considerably lessen the potential for quality-of-care impacts, but it is doubtful whether the Department could successfully negotiate a contract with a private provider under these terms.
- ◆ **Private Sector Staffing Model** – this approach assumes the contractor operates Columbia Falls with levels of nurse staffing similar to those seen in private sector nursing homes. By reducing nursing hours, the contractor would be able to decrease the total cost of operating the facility to approximately \$7.5 million. This would save the state approximately \$2 million. Operating the facility with staffing levels similar to private-sector nursing homes would likely allow the contractor to operate with a profit margin of 10 percent. However, this level of profitability would be double the margins typically experienced by nursing home operators in western Montana. Given a 27 percent reduction in nursing hours, this staffing model may not be a realistic option for providing cost-effective services while not adversely impacting quality of care.
- ◆ **Potential Contractor Terms** – this approach assumes the contractor operates Columbia Falls with levels of nurse staffing that are lower than the current state model, but are above levels typically seen in private-sector nursing homes. This scenario maximizes savings through contracted service provision, but still provides a contractor with an opportunity to operate the facility on a financially sustainable basis. Cost savings to the state would amount to approximately \$1.7 million and the contractor would be able to realize a profit margin of 5 percent (similar to margins reported for the Glendive and for other nursing homes). It is important to note that contracting on this basis would still involve reducing nursing hours by 17 percent (at 4.52 hours per bed day, this would be a lower level of nursing hours than currently reported for both Columbia Falls and Glendive).

Private Provision of Services at Columbia Falls Delivers Savings, but Quality of Care Could be Impacted

Under any of the scenarios discussed above, the state of Montana would benefit from unused cigarette tax revenues being reverted to the General Fund. The majority of any savings are realized through a contractor's ability to control expenses in cost centers not directly related to quality of care (administration, employee benefits, food service, laundry etc.) However, for a private provider to operate Columbia Falls on a financially sustainable basis, further reductions would be necessary in nursing hours. The extent

of any reductions in nursing hours and the potential impact of these changes on quality of care would need to be considered as part of any decision to contract for the operation of Columbia Falls with a private provider.

Veterans Homes' in Other States

As part of our audit work, we contacted state veterans home representatives in eight states. Methods for managing homes in other states were diverse. Some contracted with private providers, while others were state-run. A few states provided dedicated funding, while most provided little or no financial support to their homes—those homes derived the vast majority or all of their revenue from VA payments, Medicare, Medicaid, private insurance and the veterans themselves.

Contracting Has Had Mixed Results in Other States

As we found the method for managing homes varies from state to state, so too did states' experiences with contracted providers. Two states we spoke with, Utah and North Carolina, manage multiple homes that are operated by contracted providers and were reported to be satisfied with the costs and quality. Two other states, Mississippi and Tennessee, had formerly contracted with private providers to operate their homes but found the quality and costs to be substandard to such a degree that those states have resumed state operation of the veterans' homes. Finally, Michigan is attempting to contract for nurse aide services at one of its veterans' homes but a court's injunction has halted those plans for the time being. The state is being sued because veterans allege the contracted provision of those services would cause "irreparable harm" to the home's residents.

Costs Associated With Changing to a Contracted Provider

If Montana were to seek a contracted provider to operate Columbia Falls, it would incur several short-term costs. These include:

- ◆ **Leave payouts:** Current employees of Columbia Falls would need to be terminated and paid for outstanding leave balances. As of April 2012 the cumulative estimated leave amount for Columbia Falls employees was over \$340,000.
- ◆ **Chance of a lawsuit:** The state of Michigan is defending its proposed privatization of some services in court. The results of that lawsuit are pending.
- ◆ **Domiciliary subsidy:** As it currently operates, the state of Montana supports the domiciliary with over \$400,000 in annual funding. To entice a contractor to continue to provide this service, the state may need to provide a subsidy.

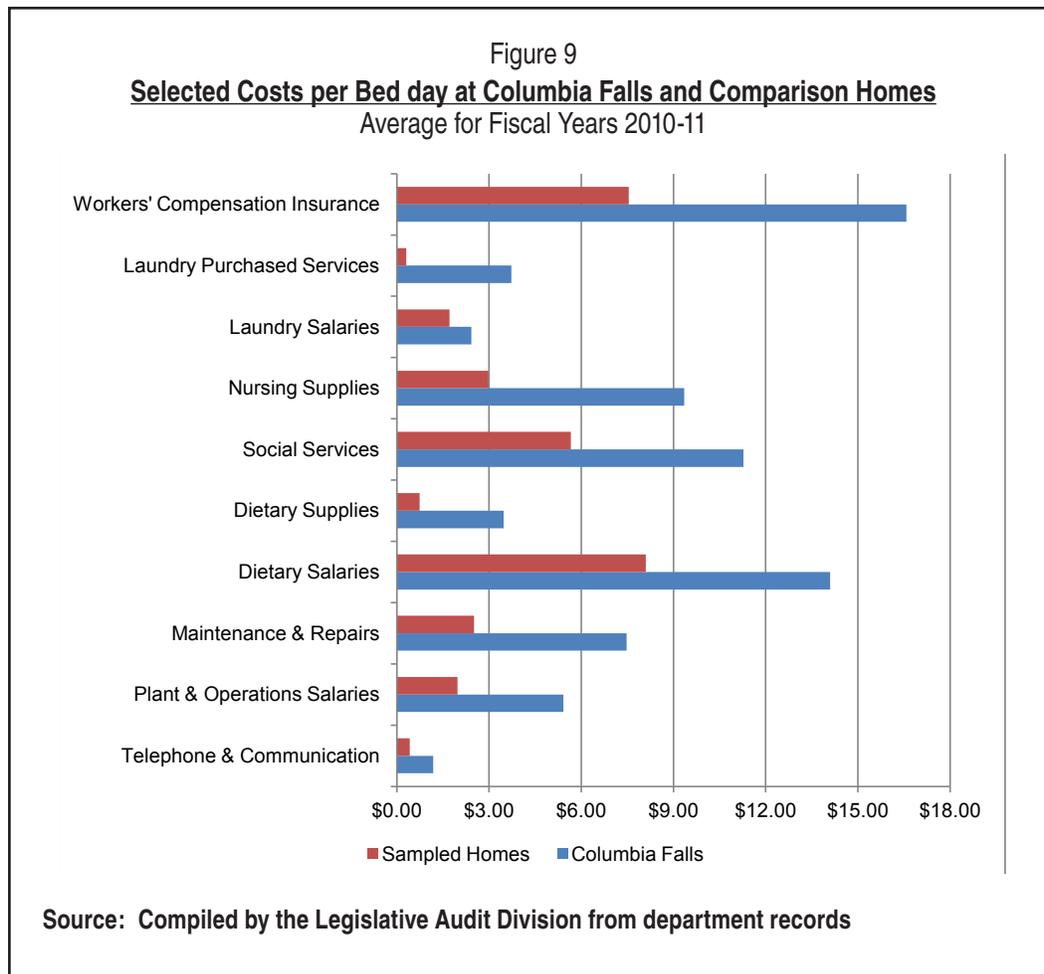
It is also unlikely the VA would continue providing pharmacy services on-site at Columbia Falls if the facility was operated by a private entity.

CONCLUSION

Using a contracted provider to operate the Montana Veterans' Home could reduce the state's long-term costs; however, it would also create uncertainty about the maintenance of service quality and the provision of domiciliary services. The state would incur some short-term costs.

Cost Containment Without a Contracted Provider

While a contracted provider could reduce costs at Columbia Falls it may be possible to reduce some costs not directly connected to quality service without obtaining a private facility operator. This section discusses specific expenses within cost centers that could be reduced without a reduction in nursing. It uses the same set of western Montana nursing homes described in the previous section and Glendive to compare average costs at Columbia Falls to other homes. The figure below displays a selected set of expense areas where Columbia Falls reported a higher than average cost per bed day.



Workers' Compensation and Other Employee Benefits More Expensive Than Other Homes

The types of benefits offered at Columbia Falls include: health and life insurance, retirement, workers' compensation and unemployment insurance, federal insurance contributions, and meals for employees during shifts. The total amount of benefits as a percentage of wages is approximately 55 percent.

Glendive also provides several types of benefits to its employees. It pays the federal insurance contributions and other standards such as workers' compensation and unemployment insurance. It also provides health, dental, long-term disability, and life insurance to employees. Full-time employees are covered 100 percent (but family members are not covered). Glendive also matches employee contributions to a 401(k) account up to a maximum of two percent of salary and profit-sharing to employees depending upon the organization's performance. In recent years, this has generally been an additional one percent of wages.

Significant In-House and Contracted Laundry Expenses

This is not an especially large cost center, but is an area in which costs at Columbia Falls exceeded comparison homes. Most laundry at Columbia Falls is done by a private contractor, though there is a commercial laundry unit at Columbia Falls in addition to a home-style washer and dryer where some laundry is done. Columbia Falls staff collect, sort, weigh, and distribute laundry in addition to performing minor sewing and repair work. According to the contract with the laundry vendor, the facility is charged \$0.45 per pound of laundry by the vendor. Columbia Falls staff weigh the laundry prior to it being picked up daily at the facility. The vendor washes approximately 700 pounds per day. Some of the laundry expensed are related to domiciliary operations.

Most laundry at Glendive is washed by a contractor off-site. There is a washer and dryer on-site where a small amount of laundry is done. Glendive staff members collect, sort, and distribute laundry in addition to delivering it to the contractor's site to be washed. There is one part-time employee within the laundry department. The contractor charges Glendive on a per pound basis (\$0.28 per pound). The total charges for fiscal year 2011 were about \$44,000 which would indicate a total of about 430 pounds washed per day.

Food Service Costs Greater Than Average

Both Columbia Falls and Glendive offer a five-meal per day plan. The type of meal plan offered by other homes is not known. Food service is generally the second largest cost center at nursing homes. Columbia Falls employs about 24 FTE in food

service including the supervisor. Food service employees work one of two daily shifts. The five-meal plan is available to both nursing home and domiciliary residents. At Columbia Falls, staff members set up serving stations in each of the three dining halls and serve there, rather than delivering trays from the kitchen. Food is delivered on trays to residents within the special care unit.

Glendive employs four full-time and six part-time employees in food service. A contractor provides the manager and dieticians. The contractor purchases the food and passes the costs through to Glendive. Residents are served in a single dining area, or if necessary, trays may be delivered to resident rooms and the special care unit. Employees and guests may eat at the cafeteria but pay for these meals.

Large Social Services Staff

At Columbia Falls, there are 12 FTE within the social services department, which includes social workers and activities employees. The activities section includes the smoking program, which is designed to accommodate on-site veteran smoking. Other comparable homes may not have a smoking program, so costs in this area may be higher than in comparison homes. However, due to the population at Columbia Falls, the facility also receives more volunteer support for activities than may be expected at other homes.

There is a full-time social worker at Glendive (this is a VA requirement) and two activity aides. When the patient census exceeds 70 residents, facility staff reports it is necessary to bring in another half-time activity aide. These aides help with the smoking program and other activities. The social worker is also the primary admissions contact.

Cost Reduction Summary

The expense areas discussed above may have an impact on quality of care, but seeking efficiencies in these areas may be possible and would have a less direct impact on quality, if any. The total cost per-bed-day for these expense areas at Columbia Falls was \$75.01 while for the other homes it was \$31.95. By reducing its costs in the areas identified above to the average level of comparison homes, Columbia Falls could save over \$1.3 million per year.

Other Expenses

Figure 9 and the sections above discuss a number of areas in which Columbia Falls expenses exceeded the average for comparison homes as reported on cost reports. During the course of our work, we also identified several other areas in which expenses at Columbia Falls appeared higher than comparison homes though these could not be readily identified using cost report information. These included:

- ◆ Columbia Falls employees are provided meals free of charge as a benefit of employment; this did not appear to be a benefit offered at other homes. In fiscal years 2010-11 the average annual cost of this benefit was \$79,640.
- ◆ Columbia Falls was charged an average of \$311,806 per year for billing services during fiscal years 2010-11. This rate reportedly does not include billing for VA reimbursements or Medicare part D, which the facility handles itself. The rate appeared to be high compared to Glendive billing expenses.

Achieving Cost Savings

The bulk of this chapter has discussed the disparity in the cost of operating Columbia Falls and other benchmark nursing homes that provide quality care. Overall, Columbia Falls exhibits a greater than expected number of FTE per 1,000 inpatient days and is more expensive to operate on a per-patient-day basis than other homes. Some of the costs incurred by Columbia Falls are not directly related to the provision of quality service. These costs at Columbia Falls should approximate industry norms and the actual cost experiences for Glendive, comparable private nursing homes, and veterans' homes in other states.

Addressing the cost differences through cost reductions may not be easy and could involve complex factors such as negotiating with employee unions, identifying lower cost suppliers, or designing new, more efficient procedures. Some operational changes would have little, if any, impact on quality. Potential areas for cost containment include:

- ◆ Seeking a reduction in the cost of workers' compensation insurance.
- ◆ Devising a more efficient method for laundering goods to reduce dependence on either full-time employees or contracted services.
- ◆ Negotiating with employee unions to seek the elimination of free employee meals as a component of benefit package.
- ◆ Reducing expenses for maintenance and repairs (during the time period audited the facility was reportedly catching up on deferred maintenance).
- ◆ Reducing staffing to industry norms in the areas of food service, social services, and plant and operation.
- ◆ Seeking economies in telephone and communication expenses.
- ◆ Investigating options for reduced billing costs.
- ◆ Reducing expenses in other areas as identified by facility administration.

Above, we estimated that total costs could be reduced by over \$1.3 million by implementing these types of cost containment measures. It may not be realistic for a state veterans' home to reduce costs to the same extent as regular homes given the unique population served, but many of the identified services are not greatly affected by the resident population. Other cost containment measures such as reducing the

number of nursing hours or eliminating the domiciliary service could further reduce costs but could diminish the quality of services provided by the institution.

RECOMMENDATION #3

We recommend the Department of Public Health and Human Services implement a cost containment plan for the Montana Veterans' Home that reduces expenses.

DEPARTMENT OF PUBLIC
HEALTH AND HUMAN
SERVICES

DEPARTMENT RESPONSE

DEPARTMENT OF
PUBLIC HEALTH AND HUMAN SERVICES

A-1



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June 1, 2012

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Dear Ms. Hunthausen:

Thank you for the opportunity for the Department of Public Health and Human Service to provide a response to the two recommendations addressed to the department for the performance audit of the Montana State Veterans' Homes in the Senior and Long Term Care (SLTC) Division.

Recommendation # 2:

We recommend the Department of Public Health and Human Services comply with statutorily-prescribed rate calculations methods or seek legislation to revise the calculation procedures for the state veterans' homes.

Response: Concur

The Department will ensure we comply with statute to calculate the rates at each facility.

Recommendation # 3:

We recommend the Department of Public Health and Human Services implement a cost containment plan for the Montana Veterans' Home that reduces expenses.

Response: Concur

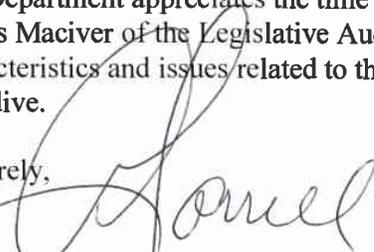
The Department and the Montana Veterans' Home will continue to look for efficiencies in operating the Veteran's Home while maintain a five-star facility rating. We will strive to determine if there are specific cost containment measures that can be identified and are within the Department's and the facility's control.

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The Department appreciates the time that was spent at both of the State Veteran's Homes by Ross Johnson and Angus Maciver of the Legislative Audit staff gathering information to assist in understanding the unique characteristics and issues related to the operation of the veterans facilities located in Columbia Falls and Glendive.

Sincerely,



Anna Whiting Sorrell

cc: Mary Dalton
Laurie Lamson
Marie Mathews
Kelly Williams
Joren Underdahl

