

# LEGISLATIVE AUDIT DIVISION

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## MEMORANDUM

**TO:** Legislative Audit Committee Members

**FROM:** Ross Johnson, Performance Auditor

**CC:** Richard Opper, Director, Department of Public Health and Human Services  
Kelly Williams, Administrator, Senior and Long Term Care Division  
Rick Norine, Chief, Nursing Facilities Bureau  
Joren Underdahl, Superintendent, Montana Veterans' Home  
Nancy Lane, Administrative Officer, Eastern Montana Veterans' Home

**DATE:** May 2014

**RE:** Performance Audit Follow-Up (14SP-11): Montana State Veterans' Homes (orig. 12P-03)

**ATTACHMENTS:** Original Performance Audit Summary

### Introduction

The *Montana State Veterans' Homes* (12P-03) performance audit report was issued to the Legislative Audit Committee in June 2012. The audit included two recommendations to the Department of Public Health and Human Services (department) and one to the Montana Legislature. In April 2014, we conducted follow-up work to assess implementation of the report recommendations. This memorandum summarizes the results of our follow-up work.

### **Overview**

Our performance audit of the Montana State Veterans' Homes found that 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. Our follow-up work related to this audit found that while the legislature considered a bill to more equitably distribute the funding which supports veterans' homes, the bill did not pass. While the department has achieved cost containment measures in some areas, the total expenses continue to increase, so some of the potential savings discussed in the original audit have not been realized. Finally, the department continues to calculate the daily rate charged to residents of the Montana Veterans' Home using a method other than that which is described in state law.

### Audit Follow-up Results

The quality of care at both state veterans' homes remains very high. The Centers for Medicare and Medicaid Services assigns quality ratings to nursing homes, and the Montana Veterans' Home (MVH) in Columbia Falls continues to receive 5-star quality ratings (the highest rating possible). The Eastern Montana Veterans' Home (EMVH) also rates well with a 4-star rating.

Population trends show MVH has been running nearly at capacity, and the population at EMVH has also been trending upwards. It is not realistic to achieve 100 percent capacity due to resident turnover, etc. Table 1 shows the average daily population at each of the homes, including the domiciliary at MVH for the past four fiscal years (fiscal year 2014 is year-to-date).

<b>Table 1 Average Daily Population Fiscal Years 2011-2014</b>					
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Beds</b>
MVH Nursing	89.55	97.87	100.91	100.16	105
MVH-Domiciliary	10.38	11.29	11.03	11.07	12
EMVH	58.99	60.53	71.64	69.18	80

The following sections summarize the progress toward implementation of the report recommendations. To determine the status of implementation, we requested an update from the department related to its activities, met with department officials, and reviewed financial records.

**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.**

**Implementation Status – Implemented**

A portion of the funding for state veterans' homes is derived from a state tax on cigarettes. During the 2013 Legislative Session, a bill was introduced (HB263) that sought to equalize the cigarette tax funding distributed to each of the state veterans' homes. The bill was passed by the House Human Services Committee but did not pass the full House of Representatives. So while the legislature has reviewed the allocation of funding and we therefore classify the recommendation as implemented, the condition which led to our recommendation still exists.

We obtained information related to the use of cigarette tax funding for the two fiscal years that have elapsed since the time we collected data for the audit. MVH in Columbia Falls continues to receive substantially more cigarette tax funding support than EMVH. Table 2 displays the amount of cigarette tax funding used to support veterans' home services during fiscal years 2012-13. The percent of total column includes both fiscal years.

<b>Table 2 Cigarette Tax Usage (Veterans' Homes Portion Only)</b>			
	<b>2012</b>	<b>2013</b>	<b>Percent of Total</b>
General Administration	\$59,901	\$60,606	1.1%
EMVH (Glendive)	\$253,790	\$142,526	3.5%
MVH (Columbia Falls)	\$1,747,086	\$1,972,072	32.9%
Returned to General Fund or LRBP related to construction of the Southwest MT Veterans' Home	\$3,675,615	\$3,378,807	62.5%
<b>Total</b>	<b>\$5,736,392</b>	<b>\$5,554,010</b>	<b>100%</b>

For fiscal year 2013, the cigarette tax funding support per bed day was \$48.27 in Columbia Falls (including the domiciliary bed days) and \$5.46 in Glendive.

## **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.**

### **Implementation Status – Not Implemented**

According to state law (§53-1-401, MCA), the per diem charge at state institutions, including veterans' homes, is to be calculated by dividing costs by resident load from the previous fiscal year. At the time of our audit, rates were not calculated according to this method. The rate for MVH was calculated using the total facility capacity instead of resident load. The EMVH rate used the projected facility population for the upcoming year.

In December 2013, new rates were approved for MVH; however, the department did not use the statutorily-defined calculation methodology. Department officials reasoned using the statutory calculation would result in a prohibitively large increase in rates that would be borne by home residents. The department did calculate new rates for nursing (increased by 7 percent) and domiciliary (increased by 4.5 percent) care at MVH. Had the department calculated the per diem rate using the actual resident nursing population, the daily rate would have been \$255.52 instead of the current \$237.43, or an increase of 15.2 percent. Similarly, the domiciliary rates would have increased to \$91.16 per day instead of \$83.78.

The department estimates the two rate changes plus increased revenue from a larger population of 70 percent service-connected disabled veterans (who receive a higher reimbursement from the federal Veterans Administration than other veterans) will generate approximately \$482,000 in additional revenue, so charging the rate described in statute would create an unnecessary burden on home residents.

Rates at the EMVH have not changed since the time of the audit. The department has not sought legislation to revise the statutory calculation procedures for the state veterans' homes.

## **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.**

### **Implementation Status – Partially Implemented**

The department classified the status of this recommendation as implemented citing cost efficiencies and reduction efforts in the areas of maintenance, repairs, plant operations, major equipment, minor equipment, supplies, and cable and internet charges. The department projected total cost savings in nonpatient-care-related expenditures of \$252,000, primarily related to the reduction in maintenance and repairs. The department has investigated the opportunity to decrease the workers compensation insurance rate but has found that employees at MVH are required to be included in the policy that covers all of the department facilities. This policy spreads risks and exposures across a larger employee group rather than just the MVH employee pool. So it does not appear that a reduction in this particular cost area is feasible.

We reviewed financial information from the state accounting system for the first three quarters of fiscal year 2014 and compared the expenditures by cost area to the totals for the first three quarters of each of the previous two fiscal years. Using this method, we did verify a savings in the area of repairs and maintenance of \$203,792 for those quarters. If the trend continues over the remaining quarter of fiscal year 2014, the total yearly savings will be even greater. We noted two other cost areas in which expenditures decreased: debt service decreased by \$73,279, and utility expenses decreased by \$397.

We have not classified this recommendation as fully implemented because the original audit report identified several other cost centers where it appeared, based on comparisons to comparable homes, savings could be achieved. The total expenses for MVH have continued to increase. In January 2012, the 6-month moving average total monthly expenditures was \$796,976 while by March 2014, it had risen to \$855,372.

Some of the areas identified as more costly than comparison homes were cost centers such as laundry, worker's compensation insurance, nursing supplies, social services, and food service. While the department has reduced expenses in some cost areas, the cost containment plan has not reduced overall expenses for MVH. For the first three quarters of fiscal year 2014, total expenditures were \$180,015 higher than the same time period for the two previous fiscal years.