Colorado
State Veterans Nursing Homes
Department of Human Services

Performance Audit
August 2011

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Dianne E. Ray, CPA
State Auditor

August 31, 2011

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Colorado State Veterans Nursing Homes at the Department of Human Services. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Human Services.

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Glossary of Terms and Abbreviations

COFRS – Colorado Financial Reporting System

Community College Board – State Board for Community Colleges and Occupational Education

Department – Department of Human Services

District – Huerfano County Hospital District

Division – Division of State and Veterans Nursing Homes

FTE – Full-time-equivalent

HCPF – Department of Health Care Policy and Financing

Homes – State Veterans Nursing Homes

Matrix system – Matrix Achieve system

RFP – Request for Proposal

TABOR – Taxpayer's Bill of Rights

VA – U.S. Department of Veterans Affairs

COLORADO STATE VETERANS NURSING HOMES
Performance Audit, August 2011
Report Highlights

Dianne E. Ray, CPA
State Auditor

Colorado State Veterans Nursing Homes
Department of Human Services

PURPOSE
Evaluate the Department of Human Services' (the Department) oversight of the financial solvency of the State Veterans Nursing Homes (the Homes) and its compliance with requirements governing the divestiture of the Trinidad Home.

BACKGROUND
- The Department oversees five State Veterans Nursing Homes that provide primarily rehabilitative and long-term skilled nursing care to honorably discharged veterans and veterans' family members.
- A sixth state-owned Home, located in Trinidad, Colorado, was sold for $3.25 million in February 2011.
- The Homes function as self-sustaining business enterprises, funded primarily by revenue generated through the care provided to residents. Between Fiscal Years 2007 through 2011, the five Homes directly operated by the Department sustained a combined net loss of about $1.5 million.

OUR RECOMMENDATIONS
The Department should:
- Ensure adequate resident census goals and resident payer mix are incorporated into oversight activities of the Homes' financial performance, including identifying break-even points to set census goals, monitoring and updating these goals regularly, and using these goals in marketing strategies.
- Evaluate, and restructure if warranted, staffing arrangements and the utilization of an outside consultant for the accounting and marketing functions needed to manage the Homes.

The agency partially agreed with these recommendations.

EVALUATION CONCERN
Although steps have been taken to improve the financial self-sufficiency of the Homes, resident census and staffing continue to be areas of concern.

KEY FACTS AND FINDINGS
- The Division of Colorado State and Veterans Nursing Homes (the Division) at the Department—which is tasked with the direct oversight of the Homes—has not identified adequate resident census levels (i.e., the number of residents receiving care each day) for each Home. A goal of 85 percent has been set by the Division, but three Homes report needing to maintain a census higher than 85 percent to remain solvent.
- The Division has not ensured that accounting and marketing functions needed to manage the Homes are clearly defined, staffed appropriately, and not duplicated unnecessarily.
- Between Fiscal Years 2007 and 2011, about $325,000 was allocated to pay an outside service consultant for accounting and marketing services at the Homes, but it is unclear how these services were distinguished from the job duties of current state personnel.
- Staffing at the Homes for accounting functions appears arbitrary. One Home employs six full-time-equivalent (FTE) staff to conduct accounting functions for its 180 residents, while another Home also employs six FTE staff for accounting functions for 105 residents (42 percent less).
- The Division currently does not use performance evaluations for key management staff that ensure job duties related to the solvency of the Homes are reflected in evaluation scores.
- The Department has not promulgated rules or established other written guidance that define its expectations of the Division or Home Administrators as they relate to the Homes' financial performance and solvency.
- The Department has not maintained documentation supporting its determination to pay $2 million to the State Board for Community Colleges and Occupational Education for property reversion rights upon the sale of the Trinidad Home for $3.25 million.

For further information about this report, contact the Office of the State Auditor
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RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	16	Ensure the Division of State and Veterans Nursing Homes (the Division) incorporates adequate resident census goals into its oversight activities of the financial performance of the Colorado State Veterans Nursing Homes (the Homes), which should include (a) working with the Homes to identify the break-even point for each Home and establishing census goals that are set high enough above each Home's break-even point to provide for sustainability; (b) incorporating the census goals into marketing strategies; (c) monitoring the goals regularly and adjusting, as necessary; and (d) evaluating and adjusting staffing levels, as appropriate.	a. Partially Agree b. Partially Agree c. Agree d. Agree	a. Implemented and Ongoing b. Implemented and Ongoing c. Implemented and Ongoing d. Implemented and Ongoing
2	21	Ensure the Division incorporates the resident mix into any census goals established for the Homes, including (a) working with the Homes to determine the optimal resident mix at each Home, and (b) requiring staff to monitor actual resident mix on a regular basis and update census goal calculations to reflect the differences in resident mix, as necessary. The resident mix should also be incorporated into any marketing strategies used for the Homes.	a. Agree b. Partially Agree	a. Implemented and Ongoing b. Implemented and Ongoing
3	25	Ensure the Division evaluates, and restructures if warranted, the current organizational framework of the accounting and marketing functions needed to manage the Homes, including (a) ensuring staff have clearly defined roles that are not redundant or duplicative, (b) ensuring outside consulting services are not merely duplicative, (c) ensuring outside consulting services are regularly evaluated for accountability, cost and quality of the services provided, (d) evaluating whether functions across the Homes could or should be consolidated or centralized, and (e) ensuring staff are trained on the organizational framework once it is put into place.	Agree	a. November 2011 b. October 2011 c. October 2011 d. May 2012 e. May 2012

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
4	30	Establish and implement written rules or other guidance that define the Department's expectations regarding the Division's role and authority in monitoring the financial performance and solvency of the Homes, which should include clear direction on responsibilities in setting financial goals, such as those related to resident census and mix.	Partially Agree	Implemented and Ongoing
5	31	Revise performance evaluations for the Division Director and Home Administrators to ensure the evaluations adequately reflect their unique responsibilities regarding the solvency of the Homes. The Department should (a) establish evaluation measures that adequately evaluate and weigh staff performance related to maintaining solvency and include measures that are based on the resident census and mix goals discussed in Recommendation Nos. 1 and 2, and (b) separate solvency measures from nonfinancial measures in evaluation scores.	a. Partially Agree b. Agree	November 2011
6	34	Improve the timeliness and effectiveness of its oversight of the State Veterans Nursing Homes' financial performance by (a) identifying reporting needs not currently available through the Department's version of the Matrix Achieve system; (b) evaluating whether software upgrades will address those needs identified in part a; and (c) implementing new software, if warranted.	Agree	a. November 2011 b. March 2012 c. July 2012, as fiscally feasible
7	40	Maintain complete documentation demonstrating it has conducted appropriate due diligence in any instances in which the Department is responsible for the sale of state-owned real property.	Agree	Implemented and Ongoing

Overview of the Colorado State Veterans Nursing Homes

Chapter 1

Under Section 26-12-201(4), C.R.S., the Department of Human Services (the Department) is responsible for the control and supervision of all Colorado state-owned nursing homes. At this time, the Department oversees five State Veterans Nursing Homes (the Homes) that have been certified by the U.S. Department of Veterans Affairs (VA) and provide primarily rehabilitative and long-term skilled nursing care to honorably discharged veterans and veterans' family members. The operations and maintenance of the state-owned Homes are funded by revenue the Homes generate through the care provided to residents; as such, the Homes function as self-sustaining facilities.

The Homes

The five state-owned facilities are located in Aurora (referred to as the Fitzsimons Home), Florence, Monte Vista (referred to as the Homelake Home), Rifle, and Walsenburg. The Department also operated a sixth state-owned facility until February 2011, located in Trinidad, Colorado; this facility was sold by the Department and is now operated as a private nursing home. When it was owned by the Department, the Trinidad State Nursing Home (the Trinidad Home) was not VA-certified and was open to all qualifying Colorado residents. The sale of the Trinidad Home is discussed in further detail in Chapter 3 of this report.

One of the five current state-owned Homes, the Walsenburg Home, is managed by the Huerfano County Hospital District (the District) through a contract with the Department. The Walsenburg Home is located in the same facility as the county hospital, and staffing for this Home is managed by the District rather than by the State. The Department maintains one full-time-equivalent (FTE) staff person at the Walsenburg Home to manage the contract with the District.

The remaining four facilities—Fitzsimons, Florence, Homelake, and Rifle—are operated directly by the Division of State and Veterans Nursing Homes (the Division) at the Department. These four state-operated facilities have the capacity to serve up to a total of 434 nursing home residents, as detailed in the following table. State personnel at these four Homes total 546 FTE staff. The table includes staffing, resident, and service data for all four state-operated nursing homes and for the Trinidad Home, which was sold to a private party in February 2011.

Colorado Department of Human Services
State-Owned and Managed Nursing Homes
Residents, Staffing, and Services
As of July 2011[1]

	Resident Capacity	FTE	Types of Admittance	Services
Fitzsimons	180	249	Eligible veterans, spouses, and widows of veterans, and parents of deceased veterans	Long-term care, rehabilitation, memory care services, hospice
Florence	105	112		Long-term care, rehabilitation, memory care services, hospice, short-term respite care
Homelake	60[2]	64[2]		Long-term care, rehabilitation, memory care services, hospice, short-term respite care, and a domiciliary/assisted living unit
Rifle	89	121		Long-term care, rehabilitation, memory care services, hospice, short-term respite care
Trinidad[1]	119	130	Eligible Colorado residents	Long-term care, rehabilitation, memory care services, hospice, short-term respite care

Source: Resident, staffing, and service information provided by the Department of Human Services.
[1]The Trinidad Home was sold to a private entity in February 2011.
[2]The Homelake facility also includes a separate 48-bed domiciliary that is not represented in the nursing home FTE or resident capacity listed in this table.

The Homes must operate in accordance with all federal requirements governing veterans' nursing homes in order to maintain VA certification. Federal requirements allow VA-certified nursing homes to serve only honorably discharged veterans, veterans' spouses or widows, and "Gold Star" parents, who are parents of any veteran who has died while serving in the U.S. Armed Forces. Of these different types of eligible residents, at least 75 percent of those living in the Homes must be veterans, and up to the remaining 25 percent may be veterans' family members.

In 2008, the Florence Home received an Exceptional Quality Award of the American Health Care Association in recognition of its clinical quality assurance program, and it became the first state veterans nursing home in the nation to receive inclusion in the Eden Registry, which acknowledges the achievement of establishing a homelike environment for residents, rather than an institutional one. The Fitzsimons Home was also included in the Eden Registry in May 2011.

Resident Census

The average number of residents being cared for at the Homes has fluctuated between about 76 percent and 95 percent of Home capacity during the last five years. The total resident census averages for Fiscal Years 2007 through 2011 for the four state-operated Homes are shown in the table below.

Department of Human Services State-Operated Veterans Nursing Homes Resident Census Trends Fiscal Year 2007 through Fiscal Year 2011						
	Resident Capacity	Average Percentage of Home Capacity				
		FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Fitzsimons	180	93%	95%	91%	93%	93%
Florence	105	86%	92%	90%	86%	79%
Homelake	60	78%	77%	85%	84%	78%
Rifle	89	88%	91%	76%	79%	87%
Source: Office of the State Auditor's analysis of census data provided by the Department of Human Services.						

Fiscal Overview

The Homes are required to generate enough revenue to support their operations and administration and, as such, function as self-sustaining facilities. The Homes and the Division receive some general funds annually to offset indirect costs, such as the services provided by the Department's central accounting and procurement offices, but they do not receive annual General Fund appropriations in amounts large enough to cover their operations and administration. Each Home is expected to generate enough revenue to be self-supporting, but the Department is required to manage the revenue for the four state-operated Homes collectively in one "general nursing homes fund" [Section 26-12-108(1)(a), C.R.S.]. In this manner, if one or more of the Homes are not able to generate enough revenue within the year to be self-sufficient, the revenue from the other Homes may be utilized to cover those losses.

Business Enterprise Status Under the Taxpayer's Bill of Rights

Section 26-12-110, C.R.S., provides that any state nursing home or group of homes shall constitute a business enterprise under the Taxpayer's Bill of Rights (TABOR) as long as the conditions defining an enterprise under Article X, Section 20 of the State Constitution are met. An enterprise is defined as a government-owned business that has the power to issue revenue bonds in its own name and derives less than 10 percent of its annual revenue from state and/or local grants. In general, the Homes' operations are funded through resident per-day, or "per diem," revenue and third-party payments, such as various pension payments. For TABOR purposes, the four Homes directly operated by the Division compose one business enterprise, and the Walsenburg Home is a part of the Huerfano County Hospital District enterprise.

As an enterprise, the Homes are exempt from the revenue growth limitations under TABOR, which impose substantial restrictions on the taxation, revenue generation, borrowing, and spending authority of state and local governments in Colorado. The Homes may receive up to 10 percent of their annual revenue from state general funds, but if more than 10 percent is appropriated, the Homes lose their status as an enterprise for the fiscal year. In this instance, the Homes' revenue for the fiscal year would count towards the State's overall TABOR revenue. For Fiscal Years 2007 through 2011, the Homes received, on average, less than $1 million from general fund appropriations each year. The annual appropriations for the five-year period represent a range of about 1 to 2 percent of the approximately $47 million to $58 million in annual revenue the Homes generated, meaning the 10 percent limitation was not exceeded and the Homes maintained their enterprise status under TABOR.

Net Operating Results by Home

Between Fiscal Years 2007 through 2011, the Homes operated at a combined net loss of about $1.5 million, as shown in the table below.

Colorado Department of Human Services
State Veterans Nursing Homes
General Nursing Homes Fund
Net Operating Results by Home[1]
Fiscal Years Ended June 30, 2007, through June 30, 2011

Home	2007	2008	2009	2010	2011[2]	Total
Fitzsimons	(128,241)	(250,945)	(278,237)	877,200	1,096,983	1,316,760
Florence	(206,261)	(240,768)	(162,135)	495,105	810,873	696,814
Homelake[3]	408,726	196,595	314,917	553,431	516,342	1,990,011
Rifle	49,043	(344,404)	(1,416,740)	(961,492)	(71,953)	(2,745,545)
Trinidad	(919,598)	(942,827)	(249,466)	(335,713)	(329,415)	(2,777,019)
Totals	**(796,331)**	**(1,582,349)**	**(1,791,661)**	**628,531**	**2,022,830**	**(1,518,979)**

Source: Office of the State Auditor's analysis of data from the Colorado Financial Reporting System (COFRS).
[1] Net Operating Results are determined by calculating revenue minus expenses. All revenue and expenses related to capital construction were omitted, as capital construction is not included in the scope of the audit. Amounts in ( ) indicate a loss, or expenses exceeded revenue.
[2] Unaudited amounts.
[3] Financial information reported is for the nursing home only and does not include the Homelake domiciliary.

As shown in the table above, although the Homes experienced an overall loss for the five-year period, in Fiscal Years 2010 and 2011, the Homes collectively generated revenue in excess of their operating expenses.

Billing Rates and Payer Sources

The Homes recoup their costs through payments received on a per-day, or “per diem,” basis for each resident. The VA requires that at least 75 percent of residents at the Homes are veterans. For each eligible veteran resident, the VA pays the Homes a per diem amount in addition to any other reimbursement received for care. During Fiscal Year 2011, the VA per diem payment for veteran residents was approximately $95 per day.

Other payer sources include Medicare, Medicaid, hospice, and private payer. These sources also reimburse the Homes on a per diem basis. For the private pay residents who pay the Homes directly for the care they receive, each of the Homes is responsible for setting billing rates, with the Division’s approval, to cover the costs of providing care. Payments made by other payers, such as Medicare and Medicaid, are set by the federal government or the Colorado Department of Health Care Policy and Financing, respectively. These rates can fluctuate throughout the year as a result of policy changes or based on the level of care each resident requires. Because the rates can fluctuate, we have presented, as an example, summary data for the largest Home, the Fitzsimons Home. We do note that the ranges in reimbursement rates by payer source are comparable from Home to Home.

An overview of the reimbursement rates as of April 2011 for the Fitzsimons Home is shown in the following table.

Department of Human Services
Fitzsimons State Veterans Nursing Home
Resident Per Diem Rates
As of April 2011

Payer Source	Description	Reimbursement Rate Per Day
Medicare	Medicare is a health insurance program for people age 65 or older, people under age 65 with certain disabilities, and people of all ages with End-Stage Renal Disease (permanent kidney failure requiring dialysis or a kidney transplant). Medicare has two Parts: Part A (Hospital Insurance) covers inpatient care in hospitals, including critical access hospitals, and skilled nursing facilities. Part B (Medical Insurance) covers doctors' services, outpatient care, and some other medical services that Part A does not cover, such as physical and occupational therapists and some home health care. Most participants pay a monthly premium for Part B.	$407
Medicaid	Medicaid is available to certain low-income individuals who fit into an eligibility group that is recognized by federal and state law. Medicaid sends payments directly to health care providers. Depending on states' rules, there may be a co-payment for some medical services. Medicaid is a federal program administered at the state level by the Colorado Department of Health Care Policy and Financing, which sets the guidelines regarding eligibility and services in Colorado.	$216
Hospice General Inpatient Care	Hospice General Inpatient Care is short term, typically for fewer than two weeks. Patients are evaluated on a case-by-case basis and generally may be admitted for pain or symptoms that are uncontrolled despite aggressive treatment efforts or when death is imminent and symptoms are uncontrolled.	$350
Hospice Private Pay Veteran	Hospice/End-of-life care paid for by the Veterans Administration.	$235
Hospice Medicaid	Hospice/End-of-life care paid for by Medicaid.	$216
Private Pay Veteran	The private pay rate is determined by forecasting the cost of care less the VA per diem.	$236
Private Pay Veteran Spouse	The private pay spouse is determined by forecasting the cost of care.	$330
VA Per Diem	Per diem paid to the Homes in addition to the payer sources received above for each veteran resident only.	$95

Source: Rate information provided by the Department of Human Services, Division of State and Veterans Nursing Homes.

The Division

In the mid 1980s, the Department established the Division to oversee the Homes. The Division is currently composed of five FTE staff positions: a director, program assistant, business manager, marketing and business development manager, and director of quality assurance. The Division Director appoints a nursing home administrator for each of the four state-operated homes and the contract manager who works on-site at the Walsenburg Home that is operated by the Huerfano County Hospital District, under contract with the Department. The Home Administrators report to the Division Director and are responsible for the overall day-to-day operations and administration of the Homes, including ensuring the financial solvency of each Home.

Prior Audits

The Office of the State Auditor conducted a performance audit of the Homes in October 2003, which resulted in follow-up work in August 2006 to evaluate the financial stability of the Homes and their ability to be self-sustaining. The current audit did not specifically follow up on all of the findings and recommendations reported in 2003 and 2006, but throughout this report we identify those issues for which we previously made recommendations. Additionally, the four state-operated Homes undergo an annual financial audit on a rotating basis; for Fiscal Year 2011, the Florence Home is being audited.

Audit Scope & Methodology

We conducted this performance audit at the State Auditor's discretion and in response to a legislative audit request that asked for a review of the Trinidad State Nursing Home divestiture. To address both the request and concerns identified by this office in prior audits of the Homes, we reviewed the Department's oversight of the financial condition and solvency of the four state-operated Homes (i.e., Fitzsimons, Florence, Homelake, and Rifle), and compliance with all applicable requirements regarding the divestiture of the Trinidad Home. We spoke to the Home administrators, the Division Director, and accounting and administrative staff at the Division and the Homes. We reviewed federal and state requirements, data on the Homes' revenue and expenses between Fiscal Years 2007 through 2011, and a sample of employee personnel files and job descriptions to evaluate performance evaluations with respect to Home solvency responsibilities. Our sample included only the files for the Division Director and Home Administrators. We also reviewed the Department's usage of an outside service consultant in operating the Homes. Regarding the sale of the Trinidad Home, we spoke to staff at the Department and the Offices of the State Architect and the Attorney General, and we reviewed requirements and documentation related to the sale, including the Request for Proposal and bids, appraisal data, the sales contract, and data on the usage of $3.25 million in sale proceeds.

Our audit scope did not include a review of the Walsenburg Home operated under contract by the Huerfano County Hospital District, the Homelake domiciliary, capital construction expenses accounted for inside and outside of the general nursing homes fund, or the Department's oversight of resident quality of care.

Financial Management of the State Veterans Nursing Homes

Chapter 2

The four Colorado State Veterans Nursing Homes (the Homes) that are operated by the Division of Colorado State Veterans Nursing Homes (the Division) at the Department of Human Services (the Department) are collectively managed as an enterprise. This means that each of the four state-operated Homes (i.e., Fitzsimons, Florence, Homelake, and Rifle) is expected to generate enough revenue to cover the costs of its operations and administration. In instances in which a Home does not generate enough revenue, the Division is responsible for reallocating monies from a "general nursing homes fund" to cover the shortfall. The general nursing homes fund is composed of all revenue generated by the four Homes. In this manner, even though the Homes are state-owned facilities and are staffed by state personnel, the Homes are managed as a self-sustaining business enterprise. Because the Homes are expected to be self-sustaining, general funds are not appropriated annually in amounts to support the operation and administration of the Homes, and the revenue the Homes generate is not subject to the Taxpayer's Bill of Rights (TABOR).

These factors create a unique operating framework for the Homes and the Division. Unlike most other programs run by the Department and the State, the Homes must compete with private businesses for residents to ensure that they generate enough revenue to sustain their operations. At the same time, the Homes must abide by all state laws and regulations governing the employment of state personnel. For any nursing home, staffing expenses are a major portion of costs that must be managed in relation to the number of residents for whom care is provided. However, private nursing homes are better able to manage staffing costs in relation to staffing needs because they are not required to operate under the State Personnel System, as the Homes must, which contains lengthy due process requirements regarding how staff may be hired or terminated. The State Personnel System is designed to manage the employment of all state employees and does not prioritize factors as the private sector does, such as expedited layoffs when revenue declines. On average, staffing costs at the state-owned and operated Homes represent approximately 70 percent of costs. Most staff at the Homes are responsible for the direct care of the residents, but if the Homes lose residents and are not able to attract new residents, the number of state employees cannot simply be downsized to absorb the reduction in revenue. These factors make it critical that the Homes and the Division optimize both resident census and staffing arrangements.

Overall, we found that the Division has taken some steps to optimize resident census and staffing arrangements, which have resulted in higher net operating results in the last two fiscal years, as shown in the previous chapter. For example, the Division added a marketing coordinator position in Fiscal Year 2010, in part to streamline and boost the marketing efforts of the Homes so that resident census would improve. However, based on our discussions with staff at the Division and Homes and our review of the Homes' financials between Fiscal Years 2007 through 2011, we found that resident census and staffing continue to be areas of concern. In the remainder of this chapter, we discuss the areas we identified that the Department should address to ensure that the Homes continue to maintain financial self-sufficiency.

Resident Census Goals

Resident census refers to the number of residents being cared for at the Homes on any given day. If a Home's resident census is at 100 percent for the day, the Home is at full capacity and cannot provide care for any additional persons. Each of the Homes states that it tracks its resident census levels on a daily basis in order to better monitor revenue and manage financial performance.

What was the purpose of the audit work?

The audit work analyzed how the Division has determined appropriate resident census goals for each Home to ensure the Homes generate enough revenue to be self-sustaining.

What audit work was performed and how were results measured?

We spoke to staff at the Division and the Homes about current resident census goals and the methods used to monitor financial performance. We also reviewed census data, staffing costs, and net operating results for each of the Homes.

The Department is ultimately responsible for ensuring that the revenue generated by the Homes is generally sufficient to cover the cost of operating and maintaining the Homes (Section 26-12-108, C.R.S.), and has tasked the Division with the direct oversight of the Homes. The Homes receive payment for the services they provide on a per-resident, per-day basis; as such, the revenue that the Homes are capable of generating depends in large part on the number of residents in their care, or resident census, on any given day. By maintaining a resident census at or near full capacity, each Home can better ensure that it is able to cover its costs and remain solvent.

What problem did the audit work identify?

The Division has not identified adequate resident census goals for the Homes. In 2007, the Division established a resident census goal of 85 percent of total capacity for each Home. When we spoke to the four Home administrators who are responsible for monitoring census and the overall financial performance of the Homes, three of the four reported needing to maintain a resident census higher than 85 percent to remain solvent. For example, in comparing the average monthly resident census for each Home to its annual net operating results, we noted that the Fitzsimons Home, in particular, maintained an average census of 91 percent or higher for Fiscal Years 2007 through 2009, but it still lost a total of more than $650,000 for the period.

Why did the problem occur?

The Division stated that the 85 percent census goal was established to ensure that a statutory requirement related to qualifying for state capital construction monies would be met. The statute the Division referenced states: "No state veterans nursing homes shall be constructed … unless other state veterans nursing homes have maintained an average occupancy rate of at least eighty percent … prior to the commencement of the construction of the new … home" [Section 26-12-111(4), C.R.S.]. By setting an 85 percent census goal for the Homes, the Division stated it can ensure that this 80 percent census requirement related to building new nursing homes will be met. However, a resident census that is required for building new nursing homes is not a sound basis for setting census goals to ensure solvency of the existing Homes. The Division did not conduct any evaluation to determine whether an 85 percent census goal would be sufficient for the Homes to support operations and remain solvent. In addition, because the Division has not established an adequate census goal, it cannot ensure that staffing is set at appropriate levels that are based on the number of residents for which each Home expects to provide care.

Why does this problem matter?

Without census goals that are based on each of the Homes' operating expenses and break-even point, the Division cannot know whether the 85 percent goal—or any other census goal—is adequate to maintain solvency. The Division should ensure that census goals are set above the break-even point in order to ensure that inevitable drops in census that occur when a resident leaves, passes away, or requires hospitalization do not adversely affect financial performance.

In addition, the Homes cannot easily make staffing adjustments to reflect fluctuations in the resident census. The Homes must operate within the established State Personnel System, which contains lengthy due process requirements regarding how staff may be hired or terminated. For example, if a state department chooses to eliminate a position due to a lack of funds or work, the employee who occupies the position may have "retention rights" and require placement in another equivalent position (Board Rule 7-13). This can result, too, in staff with seniority displacing staff with less seniority when layoffs occur (Board Rule 7-9). Additionally, private nursing homes with which the state-owned Homes compete can maintain temporary employees as needed, but state regulations prohibit the Homes from utilizing temporary positions for longer than 6-month periods (4 C.C.R., 801, 4-48).

Because the Homes cannot easily adjust staffing costs based on resident census, the Department must ensure that every effort is taken to fully utilize the capacity of each Home. The Homes are staffed in anticipation of their maximum capacity, and staffing does not generally go down if the Homes are not at full capacity. As such, the Division has a responsibility to ensure that the Homes are striving to serve as many residents as possible.

In 2003 and 2006, our office found issues related to the Department's oversight of resident census levels at the Homes. In 2006, our office recommended that the Department continue to work with each Home administrator to establish specific marketing and outreach goals to ensure the achievement of optimal census levels.

Recommendation No. 1:

The Department of Human Services should ensure that the Division of State and Veterans Nursing Homes (the Division) incorporates adequate resident census goals into its oversight activities of the financial performance of the Colorado State Veterans Nursing Homes (the Homes). This should include:

a. Working with the Homes to identify the break-even point for each Home based on census levels, and establishing census goals that are set high enough above each Home's break-even point to provide for sustainability.

b. Incorporating the census goals into any marketing strategies used for the Homes.

c. Monitoring the census goals regularly, and adjusting the goals as necessary.

d. Evaluating and adjusting staffing levels, as appropriate, for each Home once census goals have been established.

Department of Human Services Response:

a. Partially agree. Implementation date: Implemented and ongoing.

   The Department agrees that establishing census goals is a critical component of fiscal sustainability. However, the Department does not agree with the problem identified in the audit that "the Division has not identified adequate resident census goals for the Homes." The Department also does not agree that a break-even point, based only on census, is an appropriate target. The audit mentions that Fitzsimons had a 91 percent average census in Fiscal Years 2007 through 2009, but still lost $650,000. The Department does agree that census development and maintenance is a key component to financial success. The Department sets an overall census target of 85 percent for all of the Homes, collectively. However, each year the Department also sets a specific census target for each Home, which is monitored and maintained throughout the year. This internal, Home-specific census target is based on historical census levels, population trends, and geographic location, among other factors. This census target is monitored monthly and weekly in combination with other financial variables (e.g., payer mix, pharmaceutical, and staffing costs) to ensure the Home's financial viability at the end of the year. The Nursing Home Administrators are held accountable to the budgeted targets, which are set to ensure the Homes financially perform at a break-even point or better by the end of the fiscal year. Although 85 percent is an overall census target for the Homes, it is not the target that is regularly monitored to ensure financial viability. The Department believes there is always room for improvement in managing performance and will ensure the Division works with each Administrator to emphasize targeted goals and tie these goals to performance expectations and monitor progress monthly.

Auditor's Addendum:

Three of the four Home administrators reported needing to maintain a resident census higher than 85 percent to remain solvent. Our audit found that the Division did not conduct any evaluation to determine whether an 85 percent census goal would be sufficient for the Homes to remain solvent.

b. Partially agree. Implementation date: Implemented and ongoing.

   The Department agrees that incorporating census goals into marketing strategies is critical for fiscal sustainability. However, the Department does not agree census goals have not been incorporated into marketing strategies. Yearly, each Home develops a business plan for the following year that includes goals and objectives related to marketing strategies. If a Home is not meeting its census goals, new and revised strategies are implemented in order to reach the targets identified in the budgeting process.

c. Agree. Implementation date: Implemented and ongoing.

   The Department agrees that monitoring census goals is a critical component of fiscal sustainability. The Department currently adjusts its census goals annually through its budgeting process. The Department has been monitoring and will continue to monitor census goals regularly through the monthly financial status reports and on a weekly basis through key factor reports.

d. Agree. Implementation date: Implemented and ongoing.

   The Department agrees with this recommendation. The Department has been and will continue to evaluate and adjust staffing levels to meet census levels within the Homes. The Homes review weekly staffing schedules to reconcile staffing to actual census for the following week. If a unit is showing lower resident census than what is budgeted, staff is diverted to other areas, scheduled to cover annual/sick leave for other staff, or not scheduled at all. The Division monitors staffing and census levels for each Home on a weekly basis through key factor reports.

Resident Mix

The monthly revenue generated by each of the Homes is greatly affected not only by the number of residents being cared for at any given time, but also by the mix of residents at the Home. In order to maintain financial self-sufficiency, statute requires that the Department establish rates for the care of residents that are “as nearly equal to the cost of operation and maintenance … as possible” (Section 26-12-108, C.R.S.).

As discussed in Chapter 1, the per diem reimbursements from the U.S. Department of Veterans Affairs (VA) and the Department of Health Care Policy and Financing (HCPF) are not set by the Division. Rather, the VA sets the VA per diem rates, while Medicaid and Medicare rates are set by various federal and state guidelines. The Division is able to set the rates charged to “private pay” residents.

As noted in the table in Chapter 1, reimbursement rates vary by source. In April 2011 at the Fitzsimons Home, for example, they ranged from $407 per day for Medicare-eligible residents to $216 per day for Medicaid-eligible residents. In addition, for each veteran resident the VA reimburses the Homes an additional $95 per day.

What was the purpose of the audit work?

We reviewed how the Division has incorporated the differences in reimbursement rates, based on mix of residents being cared for at any given time, into budgeting practices for each Home to ensure the Homes generate enough revenue to be self-sustaining.

What audit work was performed and how were results measured?

We reviewed the federal and state requirements for admitting residents and the different types of reimbursement rates paid for resident care. We also spoke to staff at the Division and the Homes about the differences in reimbursement rates and how those differences are accounted for in monthly budgeting and in the monitoring of the Homes’ overall financial performance.

The Homes must accept residents in accordance with federal and state requirements, which state that veterans nursing homes must provide equal access to all eligible veterans regardless of their payment source [Section 26-12-104(1), C.R.S., and 38 C.F.R., Section 51.80(b)(3)(c)]. Federal requirements also state that while VA-certified nursing homes may serve eligible veterans’ family members, the resident census must always be composed of at least 75 percent veteran residents. However, within these parameters nursing homes may be organized to accommodate residents with different care needs. For example, nursing homes may provide long-term skilled nursing care to one group of residents in one section of the facility and short-term rehabilitative care in another section of the facility.

What problem did the audit work identify?

We found that the Division has not directed the Homes on how to adequately manage the differences in reimbursement rates, based on the mix of residents being cared for at any given time. Our review identified the following two issues:

- **Census Goals Are Not Updated to Reflect the Resident Mix.** As noted in the previous section, the Division has not determined what the appropriate census goals are for each of the Homes. As such, the Division is not conducting a regular analysis to determine how the Homes' mix of residents, which fluctuates regularly, affects the level of census needed to maintain solvency.

- **The Homes Are Not Required to Organize Care in a Manner That Optimizes the Resident Mix.** As shown in the table in Chapter 1, the Homes receive a higher reimbursement rate for some types of residents, based on their acuity of care needs and payer source. For example, the Homes receive a higher rate for residents who need short-term rehabilitative care and are Medicare-eligible. Residents at the Homes are cared for in groups, based on their needs (e.g., a group that needs short-term rehabilitative care or a group that needs long-term care). We found that the Division has not directed the Homes on how to balance resident groups to ensure the groups at the Homes are organized to serve the optimal mix of long- and short-term residents. In addition, the Division has not tied those goals to specific outreach efforts, which would target specific populations. The Fitzsimons Home reported having a waiting list for some of its resident groups, even though in total the Home is not at full capacity.

Why did the problem occur?

Since the Division did not establish adequate resident census goals that were based on an evaluation of the census needed for each Home to maintain solvency, as described in the previous section, it did not evaluate resident mix as a factor affecting the calculation of appropriate census goals for each of the Homes. The Department has not required that the Division direct the Homes to organize the resident groups based on the optimal resident mix each Home can accommodate.

Why does this problem matter?

The Homes operate within narrow margins because the costs of providing care are high and the revenues they receive are generally only slightly higher than those costs. As noted in the previous section, the Fitzsimons Home maintained a resident census of more than 91 percent for Fiscal Years 2007 through 2009 and still continued to lose money. Without taking into account the mix of residents being cared for at any given time, the Division and the Homes cannot calculate appropriate census goals, and the Homes may not be able to remain solvent even when overall census levels are high.

Recommendation No. 2:

The Department of Human Services should ensure that the Division of State and Veterans Nursing Homes (the Division) incorporates the resident mix into any census goals that it establishes for the Colorado State Veterans Nursing Homes (the Homes) so that census goal calculations are as accurate as possible. This should include:

a. Working with the Homes to determine the optimal resident mix at each Home. This should include an assessment of whether resident grouping arrangements within or among the Homes should be modified.

b. Requiring staff at the Division and Homes to monitor the actual resident mix at each Home on a regular basis, and using that data to update census goal calculations to reflect the differences in resident mix, as necessary. The resident mix should also be incorporated into any marketing strategies used for the Homes.

Department of Human Services Response:

a. Agree. Implementation date: Implemented and ongoing.

The Department agrees that resident payer mix is a key variable that must be monitored regularly to ensure the financial viability of the Homes. The Division currently establishes the budget for each Home on an annual basis. This budget includes optimal and achievable targets for census and payer mix specific to each Home. The Division monitors these budgeted targets on a monthly and weekly basis against actual census and actual resident payer mix. The Department evaluates trends and changes in actual resident payer mix, including resident groupings and bed allocations, when setting its annual budget. With regard to resident groupings, three of the four Homes have secured units for dementia residents, and all of the Homes have a limited number of beds allocated for Medicare residents, who are reimbursed at a higher rate. These resident groupings are also monitored on a monthly basis. However, the Homes are instructed not to turn away residents, or unnecessarily hold beds vacant, based on a potential resident's type of insurance. The Department will continue to work with each Administrator to focus on and evaluate the targeted census/payer mix goals set in the budgeting process.

b. Partially agree. Implementation date: Implemented and ongoing.

The Department agrees that regular monitoring of the actual resident payer mix is an important component of financial sustainability. The Department does not agree with the recommendation that the Division update census goal calculations based on actual resident payer mix throughout the year. These targets are assessed and established once annually, and budgets are monitored on a monthly and weekly basis against actual census and payer mix. If a Home is not meeting its census or payer mix goals, new and revised marketing or cost controlling strategies are developed and implemented in order to reach the target goals identified in the budgeting process.

Administrative Staffing

In addition to the staff at the Homes who provide direct care to the residents, administrative staff at the Division and the Homes and an outside consulting firm perform accounting and marketing functions for the Homes. The consultant provides services related to all areas of operating the Homes, including accounting and marketing functions.

What was the purpose of the audit work?

The audit work sought to determine how the Division has organized the accounting and marketing functions across staff at the Division level and the Homes, and how the outside consultant's services in these areas are utilized.

What audit work was performed and how were results measured?

We interviewed staff at the Division and the Homes about the organizational structure of the accounting and marketing functions related to administering care at the Homes. We also spoke with the outside consultant that the Division has contracted with, since December 2003, to provide a variety of services related to operating the Homes. We also reviewed job descriptions and policies governing staff at the Division and Homes, as well as the outside consultant's annual service contracts for Fiscal Years 2007 through 2011.

The Homes operate as a business enterprise that must generate enough revenue to sustain the operational and administrative costs of serving residents. Approximately 70 percent of the Homes' monthly costs consist of salary and employee benefit costs. In order to cover these staffing costs and remain solvent, the Homes must operate within an efficient staffing framework.

Section 26-12-119(1), C.R.S., authorizes the Department to contract with other entities for all or part of the operation or management of the Homes in accordance with the State Procurement Code, which specifies that agencies may not contract with an outside party for services already performed by state personnel. State regulations require the Department to establish that there is sound business rationale behind each personal services contract it enters into by evaluating the accountability, cost, and quality of the services provided (4 C.C.R. 801-1, 10-2).

What problem did the audit work identify?

Overall, we found that the accounting and marketing functions performed by staff at the Division and the Homes and through the outside consultant do not appear to provide for the most efficient use of the Homes' revenue. Our review identified the following concerns:

- **Comprehensive Accounting and Marketing Policies and Practices Have Not Been Established.** The Division has not established comprehensive policies or required business practices for the Homes to ensure consistency among staff responsible for accounting and marketing functions. Previous financial audits performed by our office have identified a number of errors and omissions in the accounting functions, such as errors in accounts receivable balances and a lack of revenue reconciliations.

- **Staffing at the Homes for Accounting Functions Appears Arbitrary.** Business office staff at the Homes are responsible for accounting functions related to resident billing and payments. When we reviewed staffing arrangements in the business offices, we found no correlation between the number of full-time-equivalent (FTE) staff assigned to the accounting functions and the number of residents served. For example, the Fitzsimons Home is capable of serving a total of 180 residents and staffs six FTE in its business office to conduct accounting functions. The Florence Home also staffs six FTE for accounting functions but has a total capacity of 105 residents, which is 42 percent less than the Fitzsimons Home. The Rifle Home, which is capable of serving less than half the number of residents the Fitzsimons Home may serve, staffs five FTE in its business office.

- **An Outside Consultant Duplicates the Work of Current State Employees.** Each Home has at least one full-time marketing staff member, yet the outside consultant is used to provide marketing functions alongside the state employee. For example, a staff member at one of the Homes stated the outside consultant would accompany the state employee responsible for marketing at the Home during some of his or her regular appointments to inform the public about the services provided by the

Home. The staff member indicated to us that the outside consultant's role is not different from the duties of current marketing staff in any way, and the Division Director confirmed this utilization of the consultant at all of the Homes for marketing functions.

Why did the problem occur?

The Division has not evaluated how the current overall organizational framework of accounting and marketing functions for the Homes has evolved to ensure these administrative tasks are clearly defined, staffed appropriately, and not duplicated unnecessarily. The Division added and modified FTE staff positions responsible for accounting and marketing functions at the Division and the Homes to improve the Homes' operations. The Division has also renewed the outside consultant's service contract annually to continue to procure its services in all areas of operating the Homes. The Division needs to conduct an evaluation in order to ensure that the accounting and marketing functions are organized efficiently and appropriately. In its evaluation, the Division should:

- Evaluate whether any accounting or marketing functions at the Homes can or should be centralized or consolidated in order to better track revenue and expenses, reduce errors, avoid redundancies, and increase efficiency. During our audit, we noted that a staff member at one of the Homes who has advanced accounting skills has been utilized by the Division to perform accounting functions and compile reports for all of the Homes.

- Evaluate the usage and need for outside consulting services to perform accounting and marketing functions for the Homes. The Division should perform regular cost-benefit analyses to determine the appropriate usage of outside consultant services in overseeing and operating the Homes and ensure that outside consultants are not paid to perform the job duties of currently employed staff. Of the $2.1 million covered by the outside consultant's contract for all services provided for the Homes from Fiscal Years 2007 through 2011, about $325,000 (15 percent) was allocated to accounting and marketing services. It is unclear how these services were distinguished from the job duties of current state personnel. Staff at two of the Homes reported concerns related to the role of the outside service consultant and questioned whether the consultant added value or merely duplicated the work of current staff at the Homes.

- Use the results of the evaluation to develop a clear organizational framework that outlines how the accounting and marketing functions are divided among Division and Home staff and outside consultants, and train all staff on how to operate effectively within that framework.

Why does this problem matter?

Without ensuring that there is a comprehensive framework in place outlining job responsibilities, there is a risk that accounting and marketing functions may be overstaffed or prone to error or conflicting practices. Further, the Homes cannot afford to cover administrative costs, such as the accounting and marketing functions, in excess of what is needed and required. Total staffing costs compose roughly 70 percent of monthly costs at the Homes and appear to be higher than staffing costs paid by the private nursing homes with which the state-owned Homes compete. For example, we compared total average monthly salaries paid at three of the four Homes for key personnel who are responsible for the direct care of the residents (e.g., registered nurses and certified nursing assistants) to the total average salaries paid to the same personnel at private nursing homes. We estimate that for the 137 staff in these core direct-care positions, total annual salary costs are approximately $315,000 higher than private nursing homes report paying for the same personnel. While we understand the importance of maintaining highly qualified direct-care staff to ensure the best medical care is provided, these high salary costs emphasize the importance of keeping the administrative costs for accounting and marketing functions at the Homes as low as possible.

Recommendation No. 3:

The Department of Human Services should ensure that the Division of State and Veterans Nursing Homes (the Division) evaluates the current organizational framework of the accounting and marketing functions needed to manage the Colorado State Veterans Nursing Homes (the Homes) and restructures these functions, if warranted. This evaluation should include:

a. Ensuring that staff at the Division and Homes who are responsible for the accounting and marketing functions have clearly defined roles that are not redundant or duplicative.

b. Ensuring that any outside consulting services utilized for accounting or marketing functions do not merely duplicate the job responsibilities of existing state personnel.

c. Ensuring that any outside consulting contracts for accounting or marketing functions are regularly evaluated for the accountability, cost, and quality of the services provided.

d. Evaluating whether any accounting or marketing functions across the Homes could or should be consolidated or centralized to gain efficiencies.

e. Ensuring that once the appropriate organizational framework for accounting and marketing functions has been identified and put into place, staff are trained on their role and on how responsibilities have been broken out among the Division, the Homes, and any services provided by outside sources.

Department of Human Services Response:

a. Agree. Implementation date: November 2011.

   The Department agrees with the recommendation. The Division will evaluate the accounting and marketing FTE and corresponding Position Description Questionnaires within each Home and the Division to ensure they are not redundant or duplicative.

b. Agree. Implementation date: October 2011.

   The Department agrees with this recommendation. The Department has found the arrangement with an outside consultant to be a useful tool to evaluate and improve quality assurance and financial and marketing programs within the Homes. These services help the Division incorporate industry best practice and ensure both financial viability and high-quality service delivery within the Homes. However, with stronger Division oversight in recent years, a more streamlined model may be beneficial for operations. Therefore, the Division will collect and review data to ensure that Division accounting and marketing positions are not duplicative of the consulting contract.

c. Agree. Implementation date: October 2011.

   The Department agrees with this recommendation. The Division will begin immediately collecting data regarding accounting and marketing functions across the Homes to determine value added by the consultant in regards to the cost and quality of services provided. Additionally, the Division will review the consultant contract upon annual renewal to ensure future contractual services are cost-effective. The Department will use the contract renewal process to adjust services, as appropriate, for the following year and ensure the consultant is accountable for all services within the scope of the contract.

d. Agree. Implementation date: May 2012.

   The Department agrees with this recommendation. The data gathered on accounting and marketing functions will be used to determine whether any of these functions should be consolidated or centralized.

e. Agree. Implementation date: May 2012.

   The Department agrees with this recommendation. The Department will ensure relevant staff are trained on their roles within both the Homes and the Division, and the role of the consultant or other outside sources.

Definition and Evaluation of Roles

The Department is statutorily responsible for the operations and administration of the state-owned Homes. The Department established the Division to provide state-level oversight at the Homes. At the Division, the Division Director is directly responsible for ensuring the overall operational success of the state-operated Homes, including monitoring the day-to-day operations of the Homes through regular contact with the Home Administrators and holding each Home to programmatic and budgetary standards. The Home Administrators are, in turn, directly responsible for the overall performance of the Home they each oversee, including the Home's financial viability. The Division Director and Home Administrators provide regular reports on each Homes' financial status to the Department Executive Director, as well as other stakeholders who have an interest in the Homes' operations. The Division Director and Home Administrators are responsible for a combined total of about 550 FTE and a budget of about $54 million annually.

What was the purpose of the audit work?

The purpose of the audit work was to determine how the Department has defined the Division's role in the financial oversight of the Homes and how the staff who are directly responsible for the Homes' solvency are being evaluated for their performance in this area of their job duties.

What audit work was performed and how were results measured?

Ultimately, the Department is responsible for overseeing the Homes and for managing the Homes as an enterprise [Section 26-12-108(1)(a.5), C.R.S.]. The Executive Director at the Department has the authority to promulgate rules "governing matters of internal administration…including organization, staffing, records, reports, systems, and procedures, and also governing fiscal and personnel administration…" [Section 26-1-108(1)(a), C.R.S.]. The Department is also responsible for ensuring that all staff are evaluated regularly and that job performance evaluations are used as a factor in considerations of the quality of the employee's service to the State [Section 24-50-104(1)(c.5)(I), C.R.S.].

To determine what guidance the Department has put into place to ensure that the Division Director and Home Administrators monitor the financial performance and solvency of the Homes, we reviewed statutes, state rules, and policies and procedures and spoke with the Division Director, Home Administrators, and Department staff. We also reviewed performance evaluations for the Division Director and Home Administrators for April 2007 through March 2011, and we compared these evaluations to the resident census data and net operating results for each of the Homes for the time period.

What problem did the audit work identify?

We found that current statutes and rules are silent on the Division's role and do not specify oversight responsibilities at either the Division or the Homes regarding the financial performance and solvency of the Homes. For example, neither statute nor state rules identify the Division as directly responsible for the oversight of the Homes or codify its responsibilities in ensuring solvency.

Further, we found that performance evaluations used for the Division Director and Home Administrators could better reflect their responsibilities, as laid out in their job descriptions, related to ensuring the Homes remain solvent. Until March 2009, no performance measures related to the financial condition of the Homes were included in the evaluations of either the Division Director or Home Administrators. The Department added financial measures to evaluations for these staff in April 2009, but the final evaluation scores ultimately may not illustrate job performance related to ensuring the Homes remain solvent. The Department added financial measures to an existing performance category, "Accountability," which also includes nonfinancial, general measures such as "Represents the Agency in a Positive Manner." All measures within the "Accountability" category are evaluated collectively, meaning a final score for the category as a whole could be high even if the financial condition of the Home is poor.

Why did the problem occur?

To date, the Department has not promulgated rules or established other written guidance that defines the Department's expectations of the Division, Division Director, or Home Administrators as they relate to the Homes' financial performance and solvency. The Department has not given the Division Director clear authority over establishing requirements for the Homes related to monitoring and regularly reporting financial data, or meeting established goals related to solvency, such as goals related to resident census and mix.

On performance evaluations for the Division Director and Home Administrators, the Department has not established financial measures in a manner that allows these staff to be directly evaluated for their responsibilities regarding Home solvency. Evaluating financial and nonfinancial measures collectively under one "Accountability" category could result in final evaluation scores that do not necessarily reflect staff performance specifically related to maintaining the solvency of the Homes. State Personnel Rule 6-4 allows state departments to add performance categories to evaluations to reflect the specific job duties of some staff.

Why does this problem matter?

State Veterans Nursing Home staff within the Department total about 550 FTE and have an annual budget for operating and maintaining the Homes of about $54 million. Clear rules and guidance regarding the management and lines of responsibility among the staff at the Department, Division, and Homes are essential to the operation of the Homes. The current Division Director stated that she verbally requires the Home Administrators to submit regular reports on the financial condition of each Home for her review, but without codified rules and policies to direct the Division, Homes, and staff directly responsible for the oversight of the Homes, there is a risk that this practice would not continue if changes in managerial staffing occurred.

Further, maintaining the financial performance and solvency of the Homes is a core job responsibility of the Division Director and Home Administrators and can have long-term effects on both the Homes and the State. Each of the Homes is expected to generate enough revenue each year from the care it provides to residents to be self-sustaining. However, if one or more Homes incur losses, the revenue generated by the other Homes must be taken out of the general nursing homes fund to cover those losses, thereby reducing the funding pool that is available for subsequent years. If the combined revenue of the Homes cannot collectively support the Homes' operations, the Department must request a short-term loan from the State Controller, which also ultimately burdens the revenue generated in subsequent years. If the Homes' losses are substantial enough, the Department must request general funds, which can affect the Homes' TABOR-exempt enterprise status and require the State to report any revenue the Homes have generated as TABOR non-exempt revenue for the fiscal year.

Most state employees do not have similar responsibilities related to a program's revenue or sustainability. The Department has a responsibility to recognize the unique job duties of these staff and adjust the way their job performance is evaluated accordingly.

Recommendation No. 4:

The Department of Human Services (the Department) should establish and implement written rules or other guidance that define the Department's expectations regarding the Division of State and Veterans Nursing Homes' (the Division) role and authority in monitoring the financial performance and solvency of the Colorado State Veterans Nursing Homes (the Homes). This guidance should include clear direction on the responsibilities of the Division in setting financial goals for the Homes, such as those related to resident census and mix.

Department of Human Services Response:

Partially agree. Implementation date: Implemented and ongoing.

The Department agrees that consistent accounting and business office practices are crucial for appropriate and thorough oversight of the Homes. The Department does not agree that additional rules are required to ensure the sound operation of the Homes, given that many rules and regulations are already in place that mandate and monitor sound operational performance. The Homes have grown remarkably in recent years in terms of quality of care and financial performance within existing federal and state guidance and oversight. In fact, the Homes collectively finished Fiscal Year 2011 with a positive balance of more than $2 million. Division staff ensure sound operation of the Homes through internal fiscal and programmatic monitoring, as well as through the various audits conducted by federal and state entities. The financial and administrative authorities for the Department's programs are outlined in Section 26-1-101, et seq., C.R.S. Programmatic operations adhere to state personnel, fiscal, and procurement rules. Additionally, both the U.S. Department of Veterans Affairs, under 38 CFR Part 59, and the Colorado Department of Public Health and Environment, under 42 CFR Part 483, survey the Homes yearly. Each survey has financial components covering multiple compliance areas. The Division's role and authority are also established through the Division Director's performance plan and Position Description Questionnaire. The Division implements and modifies its policies based on best practices to continually improve and solidify its financial operations. Policies are disseminated via the Homes' business office managers during their quarterly meetings, with additional trainings as necessary. The Department has and will continue to solidify and document its practices through Division policy and guidance to the Homes. For example, an additional process that will be developed and implemented over the next year will be the consistent coding of each expense into the Colorado Financial Reporting System (COFRS).

Auditor's Addendum:

As discussed in the narrative, we determined that current statutes, departmental rules, federal regulations, and other written guidance are silent on the Division's responsibility for the Homes' solvency.

Recommendation No. 5:

The Department of Human Services (the Department) should revise the performance evaluations used for the Division Director and Home Administrators of the Colorado State Veterans Nursing Homes (the Homes) to ensure the evaluations adequately reflect the Division Director's and Home Administrators' unique responsibilities regarding the solvency of the Homes. In making revisions to the evaluations, the Department should:

a. Establish performance evaluation measures that adequately evaluate and weigh staff performance related to maintaining solvency at the Homes and include measures that are based on the resident census and mix goals discussed in Recommendation Nos. 1 and 2.

b. Separate Home solvency measures from nonfinancial measures in evaluation scores to ensure performance related to solvency is clearly evaluated.

Department of Human Service Response:

a. Partially agree. Implementation date: November 2011.

The Department agrees that Administrator performance evaluations should include and appropriately weight components related to financial performance. The Department does not agree that the current performance evaluations for staff do not adequately specify and evaluate oversight responsibility regarding the financial performance and solvency of the Homes. The Department currently has specific targeted performance objectives for financial performance in both the Division Director and Home Administrator evaluations. These performance objectives have assisted in removing several high-level staff who impeded the care of veterans and the overall financial success of the Homes and Division. Additionally, the performance objectives have been used to target performance on critical areas such as enhancing the quality of care for residents and improving staff safety, resulting in reduced injuries and related workers' compensation costs. The Department believes there is an opportunity for improvement in any process, and will enhance and focus the targeted performance objectives for financial performance for key Division and Nursing Home management by separating financial objectives from quality of care objectives and ensuring these objectives are specifically weighted to evaluate performance in both areas.

b. Agree. Implementation date: November 2011.

The Department agrees with this recommendation. The Department will enhance and focus the targeted performance objectives for key Division and Nursing Home management by separating financial objectives from quality of care objectives and ensuring these objectives are specifically weighted to evaluate performance in both areas.

Accounting Systems

The Homes use two separate systems to perform accounting functions and to monitor the financial status of each Home—the Colorado Financial Reporting System (COFRS) and the Matrix Achieve system (the Matrix system). COFRS is the accounting system all state agencies are required to use to track the expenditures of state government programs. COFRS is not designed to track the specialized expenses associated with providing long-term skilled nursing care. The Homes use the Matrix system to account for their revenue and receivables. The Matrix system is a specialized accounting system designed for long-term care operations. The Homes use the Matrix system, for example, to bill the Department of Health Care Policy and Financing, which is the state agency responsible for administering Medicaid benefits, and the VA for per diem reimbursements for qualifying veteran residents.

What was the purpose of the audit work?

The audit work reviewed how staff at the Division and Homes monitor the financial status of each Home on a regular basis.

What audit work was performed and how were results measured?

We reviewed financial reports related to budgets, revenue, and expenses from Fiscal Year 2007 through Fiscal Year 2011.

Long-term care operations require complex accounting processes to regularly monitor resident census, revenue, and expenses. Utilizing software systems that can accommodate these specialized accounting processes allows for efficiencies and better overall financial monitoring.

What problem did the audit work identify?

We requested reports from the Division showing the average cost per patient, per day by Home for a point in time within our testing period and found that the Homes were unable to compile this information efficiently. To provide our office with this information, the Homes had to manually generate these reports using data from the two separate accounting systems they use.

Monthly, staff at the Homes manually enter the Matrix system balances into COFRS. As a result, point-in-time financial reports are not easily generated. The Homes and Division rely on these financial reports to track costs and monitor the financial status of the Homes.

Why did the problem occur?

The Matrix system and COFRS are not linked software systems and, as such, manual data entry is required to generate reports containing data from both sources. The Division is required to enter financial information for the Homes into COFRS regularly but, at the same time, must generate specialized reports that are not available through COFRS to effectively monitor the financial performance of the Homes. The Division has only purchased a portion of the Matrix system to use to track revenue and receivables, and it relies on COFRS to track costs. However, the business processes at the Homes are unique from other state programs because the services the Homes provide are specific to long-term skilled nursing care; as such, using an accounting system that is specifically designed for the Homes' operations would allow for better financial management of the Homes. The complete Matrix system is an accounting system that has been designed specifically for long-term care operations and is capable of tracking costs and producing automated reports comparing revenue to costs. Purchasing the complete Matrix system could provide staff at the Division and Homes highly specialized, automated reports comparing the Homes' budget-to-actual results on a daily basis. The Division estimates that it would cost approximately $14,000 to implement the full Matrix system.

Why does this problem matter?

To effectively monitor the financial performance of the Homes, the Division and Homes must be able to rely on a variety of specialized reports to regularly track budgets, revenue, and expenses. Further, it is important that staff at the Division and Homes be able to rely on the accuracy of the reports because they are used for decision making. Under the current process that requires staff time to produce reports manually, there are inefficiencies as well as a greater risk of error in data entry.

Recommendation No. 6:

The Department of Human Services (the Department) should improve the timeliness and effectiveness of its oversight of the State Veterans Nursing Homes' financial performance by:

a. Identifying reporting needs not currently available through the Department's version of the Matrix Achieve system.

b. Evaluating whether software upgrades will address those needs identified in part a.

c. Implementing new software, if warranted.

Department of Human Services Response:

a. Agree. Implementation date: November 2011.

The Department agrees with this recommendation and is in the process of evaluating an all-encompassing software package, which includes enhanced financial reporting and electronic medical records for the Homes. Part of this process is to identify current needs not being met. All of the data gathered will be used to generate a request for proposal for a new software package.

b. Agree. Implementation date: March 2012.

The Department agrees with this recommendation. The request for proposal will be issued in January 2012, with the responses due by March 2012. Once responses are received, the Department will evaluate the proposals to determine financial feasibility and the proposal that best addresses the needs identified in part a.

c. Agree. Implementation date: July 2012, as fiscally feasible.

The Department agrees with this recommendation. The Department will implement all or portions of the new software package, as fiscally feasible, from the winning bid received from the request for proposal.

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The Trinidad State Nursing Home

Chapter 3

The legislative request for this audit asked the Office of the State Auditor to look at the sale of the Trinidad State Nursing Home (the Trinidad Home) and the disbursement of the sale proceeds because of concerns that the Department of Human Services (the Department) had not conducted the sale appropriately. In 2009, the Department was given statutory authority through Section 26-12-112(5)(a), C.R.S., to sell the Trinidad Home "on the terms and conditions [the executive director] deems appropriate." Statute further specified that the Department was required to "work in consultation" with the Las Animas County Board of Commissioners throughout the sale process, and to encourage and entertain offers for the Trinidad Home that included an assurance of continuity of care for the residents and an employee retention plan. The Department was also required to deposit any proceeds from the sale into the general nursing homes fund to use towards the operations of the remaining state-owned Colorado State Veterans Nursing Homes (the Homes) [Section 26-12-112(5)(b), C.R.S.].

The Department issued a request for proposal (RFP) to receive bids for the Trinidad Home in order to ensure that provisions related to resident continuity of care and employee retention could be incorporated into the sale process. The Department stated that it worked with the Governor's Office and the Offices of the State Architect and the Attorney General throughout the process to ensure that all requirements related to the sale of real property by the State were met. The final published RFP included appraisal information on the Trinidad Home, valuing the property at $4 million.

The Department issued the RFP in January 2010 and anticipated selecting a winning bidder in April 2010 and finalizing the property transfer by June 2010. Prior to making the bid award, however, the Department delayed the bid selection in order to allow Las Animas County time to attempt to procure funding for a higher offer on the Trinidad Home through the passage of a ballot initiative in November 2010. This delay was allowable under state requirements governing the RFP process and the sale of real property. All bidders were notified of the delay, and the Department stated that all bidders indicated that, despite the delay, they would still be interested in purchasing the property. In November 2010, the county's tax initiative failed to pass, and the Department accepted the highest offer of $3.92 million that had been made on the property by a private company. A price renegotiation was conducted, and the final sale price was reduced to $3.25 million to account for changes in the economic climate and other factors noted in the final sales contract, such as higher costs for workers' compensation claims than had been anticipated and safety upgrades to the fire sprinkler system that were federally required. This renegotiation was also allowable under state requirements.

Overall, we found no violations in how the sale of the Trinidad Home was conducted. However, we did find gaps in the Department's documentation of one aspect of the sale process related to a reversion rights clause on the title to the property. We discuss this issue in the remainder of this report.

Reversion Rights Payment

In 1955, the Trinidad State Junior College transferred 21 acres of land to the State Board of Control for State Homes for the Aged—which has since become the Division of State and Veterans Nursing Homes—for use as a site for a state-owned nursing home facility. The transfer included a reversion clause that stated the property must be "forever maintained and used by the State of Colorado as a site for the construction and establishment of a State Home for the Aged or other public institution," or ownership of the property would revert back to the Trinidad State Junior College. The Department built and opened the Trinidad Home on this site in 1957, and when the General Assembly gave the Department statutory authority to sell the Trinidad Home in 2009, the reversion clause was still on the title to the property. As such, to complete the sale of the Trinidad Home the Department had to work with the State Board for Community Colleges and Occupational Education (the Community College Board), which had the authority to sign over the reversion rights to a private company and thus clear the property's title for sale by the Department. To agree to sign over the reversion rights and clear the property's title for sale, the Community College Board required the Department to pay $2 million. As such, of the final $3.25 million the State received for the sale of the Trinidad Home, the Community College Board received $2 million for the reversion rights, and the Department received about $1.25 million, less closing costs.

What was the purpose of the audit work?

The audit work sought to determine how the Department reached its decision to accept the $2 million price set by the Community College Board for the reversion rights attached to the title to the Trinidad Home.

What audit work was performed and how were results measured?

We spoke to staff at the Department about the sale of the Trinidad Home, and we reviewed the RFP and bid documents, Home appraisal and other related information, and final sales contract with the private company that ultimately purchased the Trinidad Home. We also spoke to staff at the Offices of the State Architect and the Attorney General about how the final $3.25 million sale price was divided between the Department and the Community College Board for the reversion rights to the property.

Section 26-12-112(1)(d), C.R.S., states that the Department shall make disposition of real property in the best interest of the Homes. Section 26-12-112(5)(b), C.R.S., states that any proceeds from the sale of the Trinidad Home shall be deposited into the general nursing homes fund to use for the operation of the remaining Homes.

What problem did the audit work identify?

We found that the Department has not maintained documentation to support its determination that $2 million was an appropriate price to pay to the Community College Board for the reversion rights attached to the title to the Trinidad Home. The Department states that it did not request or receive further details on the Community College Board's determination that $2 million was an appropriate asking price for the reversion rights. Without documentation to support how the Department determined $2 million was appropriate, the Department cannot demonstrate that it acted in the best interest of the Homes.

Why did the problem occur?

The Department did not receive documentation from the Community College Board detailing how the $2 million price request was determined, nor did the Department conduct further appraisal work or maintain other documentation validating its decision to accept the $2 million price. The Department stated that the Community College Board did not provide the Department with documentation on how the $2 million price request was determined. The Department stated the Community College Board verbally maintained that $2 million was nonnegotiable and that, in order for the Community College Board to agree to sign over the reversion rights attached to the title to the Trinidad Home, the Department had to agree to the Community College Board's terms.

Why does this problem matter?

Without documentation to support the rationale behind agreeing to pay $2 million to the Community College Board for the property reversion rights, the Department cannot demonstrate that it conducted due diligence in working with the Community College Board and acted in the best interest of the Homes. When the Department acquired the property in 1955, the Trinidad Home had not yet been built, and the property transfer and reversion rights only included land acreage. In August 2010, while Las Animas County attempted to procure funding for a higher offer on the Trinidad property, it hired a realty investment consulting firm to estimate the feasibility of acquiring the property "as is." The consultant expressed concerns that the $2 million price set by the Community College Board was too high. The consultant estimated the land value at potentially between $400,000 and $700,000.

Statute states that the Department was required to apply any proceeds of the sale to the general nursing homes fund for use in the operation of the remaining state-owned Homes. With the payment of $2 million of the final $3.25 million sale price to the Community College Board, the general nursing homes fund ultimately incurred a loss of about $1.7 million upon the sale of the Trinidad Home.

Recommendation No. 7:

The Department of Human Services (the Department) should maintain complete documentation demonstrating that it has conducted appropriate due diligence in any instances in which the Department is responsible for the sale of state-owned real property.

Department of Human Services Response:

Agree. Implementation date: Implemented and ongoing.

The Department agrees it is responsible for maintaining documentation demonstrating that it has conducted appropriate due diligence, within its span of control, regarding the sale of state-owned property. It shall maintain all documentation collected and received.

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