

TENNESSEE STATE VETERANS' HOMES BOARD
JULY 1996

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The Honorable John S. Wilder
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The Honorable Joe Haynes, Chair
Senate Committee on Government Operations
The Honorable Mike Kernell, Chair
House Committee on Government Operations
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the performance audit of the Tennessee State Veterans' Home Board. This audit was conducted pursuant to the requirements of Section 4-29-111, *Tennessee Code Annotated*, the Tennessee Governmental Entity Review Law.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the board should be continued, abolished, or restructured.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/tp
96-020

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Performance Audit
Tennessee State Veterans' Home Board
July 1996

AUDIT OBJECTIVES

The objectives of the audit were to review the board's legislative mandate and evaluate the extent to which the board has fulfilled its mandate efficiently and effectively and has complied with applicable laws and regulations, and to make recommendations that might result in more efficient and more effective operation of the board and the homes.

OBSERVATIONS AND COMMENTS—MANAGEMENT OF THE HOMES

The board opened Tennessee's first state nursing home for veterans in June 1991 and the second in Humboldt in February 1996. Plans for a third home (in East Tennessee) are underway. The board contracted with ServiceMaster Diversified Health Services, L.P., in November 1994 for management of the Murfreesboro and Humboldt facilities. Day-to-day operations and staff in each facility are supervised by an administrator who is an employee of Diversified. Other staff positions are either contracted or filled by the administrator with the approval of the executive director, hired by the board to oversee all state veterans' homes. Board management stated that the working arrangement under the contract has been successful, particularly in providing specialized financial personnel in the facility's business office (page 2).

FINDINGS

Reevaluation needed for assumptions of cost-effectiveness

Although the board obtained federal Veterans' Administration data on the number of veterans over 65 years old, to help determine the need for state veterans' homes, the board has not analyzed the population trends of veterans over 85 years old, the group most likely to need nursing home care. In addition, the board has not compiled data to show the actual Medicaid cost-avoidance associated with the homes. Reevaluation of assumptions is needed to reduce the risk that the state may not be able to operate state veterans' homes for the full 20 years required and, therefore, may be required to repay federal funds granted for construction and equipment costs (page 5).

Documentation of occupancy and cost projections needed

The board sets fees for service based on estimates of occupancy, revenue, and cost projected by the management company, but has not required documentation of the factors considered in the projections. Occupancy rates at the Murfreesboro home were lower than projected and the home's income and expenses were higher than projected for 1993, 1994, and 1995. The home incurred net financial losses in 1993 and 1994. Periodic review of the assumptions about market and cost can help the board plan for the home's service and financial needs and set appropriate fees (page 10).

Quality of life for home residents improved

The number of quality-of-life deficiencies cited by state and federal inspectors at the Murfreesboro home decreased significantly between fiscal years 1993 and 1995, and inspectors said such deficiencies were corrected promptly. Quality-of-life indicators reviewed during surveys include medical needs, meals, physical environment, activities, and life safety (page 13).

Conflict-of-interest policy weak

The administrator and employees of the veterans' homes and the executive director are not required to submit statements disclosing potential conflicts of interest. Although board members submit such statements at the time they take their position on the board, the statements are not updated periodically. In addition, the company managing the homes is not required to disclose its subsidiary companies that provide health care services. Conflict-of-interest disclosures are intended to ensure that the public interest is protected and that employees and board members are independent of the vendors and subgrantees who will receive state or federal funds (page 16).

Annual reports not submitted

Section 58-7-109, *Tennessee Code Annotated*, requires the board to make an annual report to the Governor which includes an accounting for revenues and expenditures, statistics on residents of the homes, and recommendations to the Governor and General Assembly. The board submitted an initial report in 1992 and a report for fiscal year 1995 in January 1996. No reports were submitted for fiscal years 1993 and 1994 (page 18).

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

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PERFORMANCE AUDIT
TENNESSEE STATE VETERANS' HOMES BOARD

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PERFORMANCE AUDIT
TENNESSEE STATE VETERANS' HOMES BOARD

INTRODUCTION

PURPOSE AND AUTHORITY FOR THE AUDIT

This performance audit of the Tennessee State Veterans' Homes Board was conducted pursuant to the Tennessee Governmental Entity Review Law, *Tennessee Code Annotated*, Title 4, Chapter 29. Under Section 4-29-219, *Tennessee Code Annotated*, the board is scheduled to terminate June 30, 1998. The Comptroller of the Treasury is authorized under Section 4-29-111 of *Tennessee Code Annotated* to conduct a limited program review audit of the board and to report to the Joint Government Operations Committee of the General Assembly. The audit is intended to aid the committee in determining whether the Tennessee State Veterans' Homes Board should be abolished, continued, or restructured.

OBJECTIVES OF THE AUDIT

The objectives of the audit of the Tennessee State Veterans' Homes Board were

- to ascertain the authority and responsibility mandated to the board by the General Assembly;
- to determine the extent to which the board has performed its duties as mandated by applicable statutes;
- to evaluate the efficiency and effectiveness of the board's administration of its programs; and
- to develop possible alternatives for legislative or administrative action that could result in more efficient and/or effective accomplishment of the board's functions.

SCOPE AND METHODOLOGY OF THE AUDIT

The activities of the Tennessee State Veterans' Homes Board were reviewed for the three-year period July 1, 1992, through June 30, 1995, with an emphasis on the year ended June 30, 1995. The audit was conducted in accordance with generally accepted government auditing standards and included the following:

- review of applicable legislation and rules and regulations;

- examination of the board's files, documents, and policies and procedures; and
- interviews with board and facility staff, U.S. Department of Veterans' Affairs staff, and relevant state officials.

ORGANIZATION AND RESPONSIBILITIES

The Tennessee State Veterans' Homes Board was created by Chapter 899 of the 1988 Public Acts, codified as Section 58-7-101 et seq., *Tennessee Code Annotated*. The purpose of the board is to provide support and care for veterans honorably discharged from the U.S. armed forces by establishing veterans' nursing homes in the state. The board has the authority to determine the locations of state veterans' homes, employ an executive director and necessary staff, incur expenses, adopt written policies and procedures, establish rates for patient care, make contracts to buy and sell property, borrow money, and issue bonds. The board opened a 120-bed nursing home for veterans in June 1991 in Murfreesboro. A second home with 120 beds opened in Humboldt in February 1996. Plans for a third home, to be located in East Tennessee, are underway; the board anticipates federal funding will be approved for federal fiscal year 1997-98 (beginning October 1, 1997).

The board consists of ten members: the Commissioner of the Tennessee Department of Veterans' Affairs, who serves *ex officio* as a voting member, and nine individuals, three from each grand division of the state, appointed by the Governor from nationally chartered veterans' service organizations active in Tennessee. The appointments are subject to review by the General Assembly's Joint Select Committee on Veterans' Affairs. Each board member must be a citizen of the state and an honorably discharged veteran of the United States armed forces. The General Assembly's intent is to have the board membership represent different branches of the armed forces. The Governor appoints a member of the board to serve as chair. An organization chart for the Tennessee State Veterans' Homes Board is on the following page.

OBSERVATIONS AND COMMENTS

Management of the Homes

After Division of State Audit financial and compliance audits for fiscal years 1992, 1993, and 1994 cited poor management at the Murfreesboro facility, the State Funding Board required, as a condition for authorizing a bond issue for the Humboldt home, that a private company be contracted for operations. The board contracted with ServiceMaster Diversified Health Services,

L.P., (Diversified) in November 1994 for management of the Murfreesboro and Humboldt facilities. The contract specifies that the board will pay Diversified 5 percent of each home's net revenues, defined as gross revenues less contractual adjustments and bad debt allowance. The minimum fixed monthly fee per home is \$13,000, except for start-up of the Humboldt home when the minimum fixed monthly fee is \$10,000 for three months before opening and nine months after opening. Day-to-day operations and staff in each facility are supervised by an administrator who is an employee of Diversified. Other staff positions are either contracted or filled by the administrator with the approval of the executive director, hired by the board to oversee all state veterans' homes. Board management stated that the working arrangement under the contract has been successful, particularly in providing specialized financial personnel in the facility's business office.

FINDINGS AND RECOMMENDATIONS

ASSUMPTIONS OF COST-EFFECTIVENESS NEED TO BE REEVALUATED

1. FINDING:

Because federal funding is being used to build and equip the state veterans' homes, the state is obligated to operate each home for 20 years, with veterans being at least 75 percent of residents. Failure to do so creates a liability to repay the federal funds. Therefore, accurate estimates of the number of veterans who will need nursing homes in the next 20 years and analysis of the market for these additional nursing home beds are essential to managing the state's risk. Two homes have opened (Murfreesboro in June 1991 and Humboldt in February 1996) and preparations for a third home (in East Tennessee) are underway. As of December 31, 1995, the federal government had awarded the state a total of \$8.2 million—\$3.3 million for the Murfreesboro home and \$4.9 million for the Humboldt home. Although the board obtained federal Veterans' Administration data on the number of veterans over 65 years old, the board has not analyzed the population trends of veterans over 85 years old, the group most likely to need nursing home care. In addition, the board has not compiled data to show the actual Medicaid cost-avoidance associated with the homes.

Occupancy Considerations

Two separate studies were conducted prior to construction of the first state veterans' home (in Murfreesboro). Both studies were based on population projections from the 1980 census, current at that time. The General Assembly's Joint Select Committee on Veterans' Affairs released a report in 1986 that recommended a system of five homes with a total of 960 beds in areas of the state where 72 percent of the state's veteran population were said to reside. The report cited federal VA statistics that projected the number of Tennessee's veterans aged 65 and older would increase by 71 percent from 1986 to 2000, to a population of 164,000. Based on the federal VA program funding criteria of two and one-half beds per 1,000 of the state's veteran population and the projected growth in the veteran population, the report found the state could receive federal funds for the construction of 1,177 nursing home beds by the year 2000. The second study, conducted by a private consulting firm under contract with the state Department of Veterans' Affairs, also cited the VA population projections and concluded that a home in Murfreesboro was feasible, on the assumption that it would reach 95 percent occupancy by 1995.

The studies did not address the extent to which the targeted areas may have sufficient nursing home beds to serve veterans as part of the general population. However, the bond documents for the Murfreesboro and Humboldt homes cite the number of nursing home beds and their occupancy rate in the counties within 50 miles of the proposed sites. Although the bond documents report current VA projections of over-65 veteran population in those counties, no analysis is made of the numbers of veterans over 85 years old, the age group most likely to need nursing home care.

Auditor's review of VA data found that Tennessee's over-65 veteran population reached 164,200 in July 1995, five years earlier than projected. As of July 1995, VA statistics (based on the 1990 census, military separation data, and estimated national death rates) project a declining veteran population over the next 15 years and a small increase (4%) in the over-65 veteran population by 2010. However, the over-65 group encompasses very different rates and directions of population change; the younger group (65-74 years) is projected to decrease, while the older group (aged 75 and over) is projected to increase over the next 15 years. The age group most likely to need nursing care, veterans 85 years and older, is expected to increase steadily, quadrupling in size by 2010; however, this age group represents a small part of the over-65 veteran population. According to VA staff, only about one percent of veterans between the ages of 65 and 74 years and about 3 percent of veterans between the ages of 75 and 84 years reside in nursing homes, whereas 14 percent of veterans 85 and older reside in nursing homes. (See the table on the next page.)

Several issues arise from the current projections.

- The number of veterans needing nursing care may be more or less than the initial projections because the target population for nursing home care (85+ years) is a small part of the veterans over 65, and the age groups have very different rates and directions of change.
- Based on the projected increases in veterans 85 years and older, the greatest number of veterans needing nursing care apparently will come in 2010, not in 2000.
- The average age of veterans in nursing homes is likely to increase in the next 15 years, possibly requiring more skilled nursing care.

Funding Considerations

The board has not ensured that necessary data were compiled to compute actual Medicaid cost avoided because of the homes. State veterans' homes generate Medicaid cost-savings (that is, they avoid Medicaid cost that would otherwise be incurred) because the federal Veterans' Administration (VA) subsidizes the cost of care for each veteran in those homes. As of October 1995, the per diem rate was \$37.56 per resident, or \$1,126 for a full month of care. This \$1,126 is subtracted from the cost of care before Medicaid,

the patients, and third-party payors are billed. Because a significant portion of veterans' nursing home care bills are paid by the Medicaid program, the per diem payments, in effect, reduce Medicaid costs. The state pays about 30 percent of Medicaid costs, and the federal government pays about 70 percent; therefore, the state's share of the cost savings would be about \$338 for each full month of care.

Less than one-third of the residents in the Murfreesboro home are Medicaid-eligible and, therefore, generate Medicaid cost-savings. According to home records, private sources paid for 65 percent of the days of care in July 1995, Medicaid paid for 24 percent, and Medicare paid for 11 percent. In February 1996, private sources paid for 56 percent of the days of care, Medicaid paid for 29 percent, and Medicare paid for 15 percent. Calculating the actual amount of Medicaid cost-savings would require identifying each resident's financial condition and funding sources for each day because Medicaid may fund all, part, or none of a resident's care on a particular day. The data are not routinely compiled for this purpose and must be obtained by reviewing individual files of residents; therefore, an estimate is made by reviewing a sample of files. The Department of Finance and Administration estimated the state's Medicaid cost-savings resulting from per diem payments for veterans in the Murfreesboro home as \$330,000 for fiscal year 1993. This estimate was based on the assumption that the resident population throughout the year would be relatively similar (in financial condition and funding sources) to the resident population on March 30, 1993, when department staff reviewed files; this assumption was supported by the fact that the home's review of the resident population on June 30, 1993, produced similar results. As of August 1995, management of the Murfreesboro home estimated the state's annual Medicaid cost avoidance as \$240,000 to \$288,000.

The board issued bonds to fund the state's share (35% of construction and equipment costs) for the Murfreesboro and Humboldt homes. As required by Section 58-7-107, *Tennessee Code Annotated*, the bonds were issued in consultation with the Division of Bond Finance in the Office of the Comptroller of the Treasury and with the approval of the State Funding Board. Bonds for \$2.515 million were issued in September 1989 for the Murfreesboro project and bonds totaling \$3.225 million were issued in October 1994 for the Humboldt project. As of February 1996, \$275,000 in principal and \$1.25 million in interest had been paid on the bonds for the Murfreesboro home; \$277,616 in interest had been paid on the Humboldt home bonds. The bond proceeds are to be used exclusively for the facility for which they are issued.

The state's cash outlay for the homes as of March 1996 has been about \$1.17 million. An appropriation of \$200,000 was made in 1988 for start-up costs of the Murfreesboro home and \$100,000 was granted to help the board make a bond payment in February 1994. The 1996 budget included an appropriation for the Humboldt home's start-up costs (\$750,000) and bond issue costs (\$120,162). The 1988 appropriation of \$200,000 is listed on the home's financial statements as a liability, to be repaid to the state. Other state costs associated with the homes involve the Department of Finance and Administration for administrative consulting, the Department of Audit for auditing, the

Comptroller's Division of Bond Finance for bond issuance, and the State Funding Board for project review and approval.

RECOMMENDATION:

To reduce the risk that the state may not be able to operate state veterans' homes for the full 20 years required and, therefore, may be required to repay federal funds granted for construction and equipment costs, the State Veterans' Homes Board should reassess its assumptions of cost-effectiveness before building any more homes and evaluate the actual cost-effectiveness of the homes periodically, at least annually. The reassessment should use the most recent census data and population projections broken down by age groups and consider the expected rate of nursing home use by each age group. The reassessment should also analyze the existing resources in the targeted geographic areas, including the number of nursing home beds available and their occupancy rates.

The board should require the management company to explore the feasibility of compiling data on each resident's eligibility for Medicaid funding and VA per-diem payments for each day of care and calculating an actual amount of Medicaid cost-savings. The periodic evaluation of cost-effectiveness should report the funds provided by the state as well as the Medicaid cost avoided because of the VA per-diem supplement. The results of this evaluation should be reported in the board's annual report.

MANAGEMENT'S COMMENT:

We concur in part.

We concur that the most recent, available census data and population projections be used in establishing the need for any additional state veterans' home(s). The U.S. Department of Veterans Affairs (USDVA) provides the Tennessee Department of Veterans Affairs with annual projected veterans population, by county, and age group. This data is provided to the TSVH Board, and will be used to establish the need for a State Veterans Home in East Tennessee.

We concur that state veterans' homes generate Medicaid cost-savings because the USDVA subsidizes the cost of care for each veteran resident at the rate of \$37.56 per day or approximately \$1,126.00 per month, as of October 1, 1995. Using the 70%-federal/30%-state formula presented in Finding #1, the state's share of the cost savings would be about \$338.00 for each full month of care. We shall continue utilizing this subsidy to reduce state expenditures.

We concur with the recommendation to explore the feasibility of annually compiling and reporting data on each resident's eligibility for Medicaid funding and VA

per diem payments to permit calculation of actual Medicaid cost-savings, and shall ask Diversified Health Services (DHS) to do so.

We disagree that the board has not adequately analyzed population projections to confirm a long-term need for at least three state veterans' homes. Previously cited July 1, 1995, population projections by USDVA substantiate the need to establish a state veterans' home in East Tennessee. This 33-county area has a veteran population of 208,700, of which 69,650 are 65 years of age or above. The average age of the 115 Murfreesboro SVH residents on June 5, 1996 was 74.7 years, which may indicate that expiration is the trend of veterans over 74.7 years old, and correlates with U.S. life expectancy statistics.

We feel the General Assembly's previous decision to use USDVA policy, current projected veterans population, the better interests of Tennessee veterans and fiscal reality in establishing state veterans' homes remains sound.

The board has requested, through the TDVA, that appropriated funds be made available for the 35% state share of constructing a third state veterans' home in East Tennessee. Presently, approximately \$6.50 of the daily room rate at Murfreesboro and Humboldt SVHs goes toward paying bond principal and interest.

BOARD NEEDS DOCUMENTATION OF FACTORS UNDERLYING
OCCUPANCY AND COST PROJECTIONS

2. FINDING:

The Tennessee State Veterans' Homes Board sets fees for service based on estimates of occupancy, revenue, and cost projected by the management company, Diversified. However, the board has not required the management company to document the factors and assumptions considered in making its projections.

The occupancy rates for the Murfreesboro state veterans' home in fiscal years 1993, 1994, and 1995 were lower than projected and the home's income and expenses were higher than projected. The home incurred net financial losses in 1993 and 1994. These variances indicate the inaccuracy of the assumptions on which the projections were based—not only the number of veterans the home would serve, but also the cost of serving them. Periodic review of the assumptions about market and cost can help the board plan for the home's service and financial needs and set appropriate fees.

According to the Murfreesboro home's administrator, the board establishes fee schedules based on cost projections by Diversified, the contracted management company.

Using historical data, the administrator and other Diversified staff estimate salaries and costs for the upcoming year. Based on these costs and desired program increases, fees are set to generate the revenues needed to fund programs for the upcoming year. As part of this process, the facility administrator informally surveys two local private nursing homes comparable in size and provision of services to determine the rates they charge. The board has not required the management company to document its rationale and factors considered in setting fees and estimating revenues and expenses. Documenting the factors and assumptions used in setting rates would allow the board and management company to re-examine and adjust them when rates do not generate sufficient revenue and costs exceed estimates. Such re-examination on a continuing basis can improve the accuracy of revenue and expenditure estimates.

Revenues, Expenses, and Net Income

Revenues and expenses were underestimated in fiscal years 1993, 1994, and 1995. In 1993, revenues were underestimated by 3 percent and expenses, by 10 percent. In 1994, revenues were underestimated by 15 percent and expenses, by 16 percent. Estimates were much closer to actual in 1995, when revenues were underestimated by one percent and expenses, by 2 percent. Projections of revenues, expenses, and net income are included in the board’s annual Plan of Operations, required by Section 58-7-110, *Tennessee Code Annotated*. Although the plan projected a net income in each year, actual expenses exceeded revenue in 1993 and 1994. The actual net income for 1995 was \$9,400. Projected and actual amounts for fiscal years 1993, 1994, and 1995 were as follows:

	<u>Fiscal Year 1993</u>		<u>Fiscal Year 1994</u>		<u>Fiscal Year 1995</u>	
	<u>Projected</u>	<u>Actual</u>	<u>Projected</u>	<u>Actual</u>	<u>Projected</u>	<u>Actual</u>
Revenues	\$3,092,560	\$3,184,000	\$3,429,736	\$3,943,000	\$4,409,170	\$4,452,229
Expenses	\$3,027,283	\$3,335,000	\$3,428,613	\$3,989,000	\$4,355,074	\$4,442,829
Net Income	<u>\$ 65,276</u>	<u>\$ (151,000)</u>	<u>\$ 1,122</u>	<u>\$ (46,000)</u>	<u>\$ 54,096</u>	<u>\$ 9,400</u>

To increase the home’s income, the board decided in 1993 to designate additional beds for skilled care, which is reimbursed at a higher rate than intermediate care. As of March 1996, the maximum daily Medicaid reimbursement rates were \$75.35 for intermediate care and \$109.31 for skilled care; Medicare rates (for skilled care only) were \$130 per day. In order to distinguish and document all associated expenses for skilled-care provision, the facility established one wing and a portion of another wing (a total of 29 beds) as a skilled-care section. For skilled-care beds, Medicare reimburses the facility for the salaries and benefits of personnel assigned to the skilled-care section whether or not all beds are filled. In addition, the facility is reimbursed for associated services such as utilities, laundry, storage, and administration. The facility’s skilled-care resident days increased from 16 percent of total resident days in fiscal year 1994 to 19 percent of total resident days in fiscal year 1995. However, the facility was unable to provide

documentation of the specific cost benefit associated with increasing the number of skilled-care beds. Hence, it is not clear what actual impact this shift of emphasis had on the facility.

The board makes periodic deposits to a debt service fund to accumulate funds to pay bond interest and principal when due. In addition, the board has a debt service reserve fund, established with a portion of the initial bond proceeds, which would be accessed by the trustee if other funds were not made available for payment of debt service.

The state is not obligated to make payments if the board fails to do so; according to the bond documents, the bonds are not an obligation or a debt of the state and no recourse for payment shall be had against the state's general funds. However, the state provided a grant of \$100,000 from the Governor's Emergency and Contingency Fund to help the board meet its February 1994 bond payment rather than have the board make the payment from its debt service reserve fund. Staff of the Division of Bond Finance stated that use of the money in a debt service reserve fund signals the investing market that problems exist; the negative perception could cross-over to the state and could affect the state's ability to borrow in the future. Any access of the fund must be reported to the public, and bond investors may be less willing to invest in debt issued by the state of Tennessee or its subdivisions if an agency is in danger of defaulting on a debt.

Occupancy Rates

Prior to opening the Murfreesboro facility in 1991, the board established a goal of 95 percent occupancy by 1995; in addition, each year's Plan of Operations projects an annual occupancy rate. Although the Murfreesboro facility had at least 95 percent occupancy in 1993 and 1994, it did not achieve the 98.3 percent occupancy projected for each of those two years. In addition, the annual average occupancy rate has declined from almost 98 percent in 1993 to about 92 percent in 1995. Facility management attributed the decrease in occupancy rates primarily to the absence of personnel with full-time admissions responsibility (until July 1995). See the table below for projected and actual occupancy rates for 1993, 1994, and 1995.

Occupancy Rates - Murfreesboro State Veterans' Home (120 beds)

Fiscal Year	Projected	Actual
1993	98.3%	97.7%
1994	98.3%	95.2%
1995	95.0%	91.9%

The facility had an average of ten beds vacant in fiscal year 1994-95. The home's administrator estimated that, on average, two of the vacancies were intermediate-care beds held for patients temporarily transferred to the skilled-care section and eight of the vacancies were skilled-care beds. To fill vacancies, staff contact persons on the waiting list, then acute care hospitals.

Approximately 100 applicants for intermediate care are on the facility's waiting list, but apparently most applicants on the waiting list do not currently desire admission. Rather, they have applied in anticipation that they will need nursing home care in the future. Staff contact each person on the list quarterly to keep the list current.

RECOMMENDATION:

To improve revenue and expenditure estimates and the sufficiency of fees, the board should require the management company to document the factors considered in setting rates that are sufficient to cover costs yet are competitive. Relevant factors include historical costs and revenue, trends in occupancy rates of local nursing homes, increase/decrease in the target population, new programs and services planned, and changes in reimbursement rates or methodology. The board and management company should monitor the projected-to-actual occupancy rates, revenues, and expenses of each home and periodically re-examine the factors and assumptions underlying the projections and adjust them when rates do not generate sufficient revenue and costs exceed estimates.

MANAGEMENT'S COMMENT:

We concur in the recommendation and will ask DHS to document the factors considered in setting rates sufficient to cover costs yet remain competitive. Steps have been taken to have DHS provide the Board monthly with an Executive Summary of the previous month's financial activity to expose emerging trends and identify the cause. This should permit better monitoring of projected costs/revenues and allow more timely adjustments as necessary.

QUALITY-OF-LIFE INDICATORS HAVE IMPROVED

3. FINDING:

The number of quality-of-life deficiencies cited by state and federal inspectors at the Murfreesboro home decreased significantly between fiscal years 1993 and 1995. State and federal inspectors stated that quality-of-life deficiencies cited in the 1993, 1994, and 1995 surveys were corrected in a timely manner. In addition, although the number of reported incidents increased, according to facility records, the number of injuries did not increase significantly.

State and Federal Accreditation/Licensure Surveys

The number of deficiencies cited in state surveys decreased from 21 (including 16 related to quality of life) in 1993 to three (including two related to quality of life) in 1995. The Regional Administrator for the Department of Health's Division of Health Care Facilities, which inspects nursing homes in the state, stated that all problems identified in the surveys were corrected in a timely manner. The inspections meet two needs: (1) a reclassification survey required by federal guidelines at least once every 15 months to maintain Medicare/Medicaid eligibility and (2) the nursing home licensure survey required by state law at least once every 12 months. For practical purposes, the department combines the two into one annual survey. Quality-of-life indicators reviewed during surveys include medical needs, meals, physical environment, activities, and life safety codes to verify compliance with state and federal regulations. A sample of resident files is chosen and reviewed to evaluate the facility's efforts to meet residents' needs and to determine whether residents are achieving their potential.

The number of deficiencies noted in the federal VA surveys at the Murfreesboro home decreased from 24 deficiencies (including 21 related to quality of life) to six deficiencies (with none related to quality of life) in 1995. (See table below.) The VA conducted follow-up reviews in fiscal years 1993 and 1994 and determined that all major standards had been met, and that corrections either had been completed or were in process. The chairman of the VA inspection team stated in 1995 that most of the problems present during the facility's early years have been corrected. The federal Veterans' Administration (VA) conducts these annual inspections of veterans' homes for accreditation purposes because of the federal per diem payments residents receive. Inspectors review areas such as quality of care, in-service training, food services, and compliance with policies and procedures.

<u>Fiscal Year</u>	<u>State Survey Deficiencies</u>		<u>Federal Survey Deficiencies</u>	
	<u>Total</u>	<u>Quality-of-Life</u>	<u>Total</u>	<u>Quality-of-Life</u>
1993	21	16	24	21
1994	10	6	5	4
1995	3	2	6	0

To improve the quality of life of residents, the facility implemented, in November 1994, a comprehensive quality assurance and infection control program. The program requires quarterly quality-of-life surveys to be completed alternately by a Diversified field representative and an on-site employee of the facility so that two reports per year are completed by Diversified and two per year are completed by facility employees. The surveys are internal documents and are used to identify deficiencies and develop a plan of action to correct identified problems.

Incident Reports

Incident reports for the past three fiscal years at the Murfreesboro home indicated that the total number of reported incidents (including falls, aggressive behavior by residents, and residents wandering from the facility) increased 58 percent from fiscal year 1993 to fiscal year 1995. The number of “falls/found on the floor,” as a type of incident, increased from 226 in fiscal year 1993 (66% of total incidents) to 476 in fiscal year 1995 (about 89% of total incidents). However, the number of reported injuries increased only about 4 percent. State and federal surveyors attributed the increase in reported falls to a federal mandate in the early 1990s that limited the use of restraints. According to the chairman of the federal survey team, the number of falls increased at nursing homes nationwide as a result. The regional administrator for the Department of Health stated that the overall effect is a decrease in major injuries associated with excessive use of restraints, which can ultimately affect the quality of life.

Incident reports are completed by the charge nurse where the incident occurs. Facility management compile incident reports monthly, noting the type of incident, any resulting injury, and any resulting medical treatment. The summaries allow facility management to monitor trends and determine actions needed to reduce the number of incidents. The summaries also allow the facility to address the needs of individual residents. An in-depth analysis can be conducted for residents who have had repeated falls, for example, to determine if a change in medication is needed.

Incidents of Aggressive Behavior

In July 1993, the state Department of Health conducted an investigation prompted by complaints of physical abuse committed by residents against residents. The Murfreesboro facility was found to be in violation of Section 68-11-803(b)(1), *Tennessee Code Annotated*, which requires facilities to protect residents from willful abuse or neglect. Specifically, the report found the facility had failed to document violent acts by demented residents or those on psychotropic medications, had failed to document that thorough investigations of incidents had been conducted, had failed to move residents who committed repeated acts of violence, and had failed to address in their resident care plan acts committed by repeat offenders. The facility was assessed a civil penalty of \$1,000 and ordered to correct the deficiency within 60 days.

The department’s regional administrator attributed the facility’s problems with violence to the high percentage (approximately 95%) of male residents. To address the problem, the facility implemented a nurse’s aide training program on managing resident violence and established a secure unit to house residents who are difficult to manage. According to the regional administrator, actions taken by the facility as a result of the civil penalty were adequate and the problem has been corrected to the department’s satisfaction. With the exception of the penalty assessed in 1993, no disciplinary action has been taken against the facility.

Management reported two other actions taken by the facility. First, the Psychoactive Drug Committee was created to review behavior profiles of all residents on

psychoactive medication. These reviews can determine whether a change in medication is needed. Second, the facility increased the frequency of psychiatric visits from once to twice per month. The number of reported aggressive behavior incidents decreased from 53 in fiscal year 1993-94 to 23 in fiscal year 1994-95, representing a 56.6 percent decrease.

RECOMMENDATION:

The board should continue its efforts to reduce the number of deficiencies cited by state and federal inspectors and to improve the residents' quality of life.

MANAGEMENT'S COMMENT:

We concur in the recommendation and shall continue our attempt to provide Tennessee veterans with the best possible care and quality of life available in a highly-regulated nursing home environment.

BOARD'S CONFLICT-OF-INTEREST POLICY HAS WEAKNESSES

4. FINDING:

Employees of the veterans' home, the administrator, and the executive director are not required to submit statements disclosing potential conflicts of interest. In addition, although board members submit such statements at the time they take their position with the board, the statements are not updated periodically. The executive director completed a disclosure form as a member of the board before becoming the executive director, but has not updated that form. Furthermore, the company managing the homes is not required to disclose its subsidiary companies that provide health care services.

The board's conflict-of-interest policy identifies conduct that board members and employees should avoid to prevent a conflict or the appearance of one. These actions include using the position for private gain and giving preferential treatment to any individual. In addition, the policy prohibits board members and employees from participating in decisions in which they have a financial interest. Board members are required to submit a disclosure statement identifying potential conflicts upon taking their position on the board. However, the statement is not updated periodically and the board could not provide documentation of a disclosure statement for one individual who has been a member of the board since its inception in 1988. Board members approve of purchases for nursing homes, decide where to establish future homes, and award

construction contracts to build the facilities. Because the board makes decisions regarding the use of state and federal funds, it is important that potential conflicts be disclosed and periodically updated. The same conflict-of-interest provisions that apply to the board should also apply to the executive director who, according to the board's by-laws, serves as the board's liaison and chief executive officer.

Although nursing home employees (who are employees of the board) sign a statement documenting that they have received a copy of the board's policy manual, that policy does not require these employees to disclose personal and professional interests that might conflict with their job responsibilities. In addition, the policy does not address the contracted management company's on-site administrator who makes decisions regarding the purchase of medical supplies and services.

The board's policy does not address Diversified, the management company, which owns subsidiary companies that provide health care services, such as rehabilitation services, medical supplies, and Medicare Part B billing. Diversified could possibly benefit financially from contracts by directing business toward their subsidiaries. The contract between the board and Diversified prohibits purchases from parties related to Diversified without board approval. However, because Diversified is not required to disclose its subsidiaries, the board could approve purchases from subsidiaries without knowing it. Board policies do not include written procedures for the administrator to disclose, when bringing contracts for board approval, that the contractor is a subsidiary of Diversified.

Conflict-of-interest disclosures are intended to ensure that the public interest is protected and that employees and board members are independent of the vendors and subgrantees who will receive state or federal funds. Periodic, formalized disclosure of financial interests, prior employment, employment of immediate family members, and other matters that may influence or appear to influence decisions may help ensure that employees and board members are independent and impartial in carrying out their duties.

No statute requires written disclosure, and nothing came to our attention during this audit to indicate that staff or board members were influenced by personal or professional conflicts of interest. However, without a means of identifying potential conflicts of interest and discussing and resolving them before they have an impact on decisions, the board could be subject to questions concerning impartiality and independence.

RECOMMENDATION:

The board should adopt a formal, written policy requiring employees and on-site Diversified employees to disclose potential conflicts of interest. The policy should include procedures for identifying conflicts. The board should revise its policy to require board members to update disclosure statements periodically and whenever changes in financial or personal interests occur.

The board should establish procedures for its notification, before contract approval, of contracts involving subsidiaries of Diversified and consider requiring Diversified to periodically submit a statement disclosing all its business subsidiaries.

MANAGEMENT'S COMMENT:

We concur. We will develop or adapt a written policy that includes procedures for identifying conflicts that may be used by the board for on-site Diversified employees to disclose potential conflict of interest.

As indicated in the minutes of the May 19, 1995 meeting, the board now requires authorization of the executive director before any purchase from, or expenditure to, the management company, its subsidiary and related companies. Diversified will be asked to submit quarterly a list of its subsidiary and related companies, due to the frequency of changes in the industry.

The board will modify its existing policy of requiring conflict of interest statements from board members upon appointment and reappointment to being required upon appointment and annually while a member of the board.

BOARD HAS NOT COMPLETED REPORTS
ANNUALLY AS REQUIRED

5. FINDING:

Section 58-7-109, *Tennessee Code Annotated*, requires the board to make an annual report to the Governor; the report is to include an accounting for all money received and expended during the year, statistics on residents of the homes, and recommendations to the Governor and General Assembly. The board submitted an initial report to the governor in 1992 detailing operations for the period July 1, 1990 through March 31, 1992. No reports were submitted for fiscal years 1993 and 1994. The report for fiscal year 1994-95, highlighting activities since its establishment, was released in January 1996.

The board's noncompliance with the reporting requirement limits the ability of the Governor and General Assembly to monitor the operations of the board and homes and to make changes to facilitate those operations. The failure to compile and analyze information also limits the board's ability to manage the homes effectively and to evaluate its effectiveness.

RECOMMENDATION:

The board should compile and analyze data on the homes' operations to monitor and evaluate those operations and submit annual reports to the Governor to comply with its statutory responsibility. The General Assembly may wish to amend Section 58-7-109, *Tennessee Code Annotated*, to require the board to report annually to the General Assembly as well as to the Governor.

MANAGEMENT'S COMMENT:

We concur as this was brought to our attention by TDVA, resulting in the Annual Report for fiscal year 1994-95. These reports will be submitted annually as required.

RECOMMENDATIONS

LEGISLATIVE

The General Assembly may wish to amend Section 58-7-109, *Tennessee Code Annotated*, to require the board to report annually to the General Assembly as well as to the Governor.

ADMINISTRATIVE

1. To reduce the risk that the state may not be able to operate state veterans' homes for the full 20 years required and, therefore may be required to repay federal funds granted for construction and equipment costs, the Tennessee State Veterans' Homes Board should reassess its assumptions of cost-effectiveness before building any more homes and evaluate the actual cost-effectiveness of the homes at least annually. The reassessment should use the most recent census data and population projections, broken down by age groups, and consider the expected rate of nursing home use by each age group. The reassessment should also analyze the existing resources in the targeted geographic areas, including the number of nursing home beds available and their occupancy rates.
2. The board should require the management company to explore the feasibility of compiling data on each resident's eligibility for Medicaid funding and VA per-diem payments for each day of care and calculating an actual amount of Medicaid cost-savings. The periodic evaluation of cost-effectiveness should report the funds provided by the state as well as the Medicaid cost avoided because of the VA per-diem supplement. The results of this evaluation should be reported in the board's annual report.
3. To improve revenue and expenditure estimates and the sufficiency of fees, the board should require the management company to document the factors considered in setting rates that are sufficient to cover costs yet are competitive. Relevant factors include historical costs and revenue, trends in occupancy rates of local nursing homes, increase/decrease in the target population, new programs and services planned, and changes in reimbursement rates or methodology.
4. The board and management company should monitor the projected-to-actual occupancy rates, revenues, and expenses of each home and periodically re-examine the factors and assumptions underlying the projections and adjust them when rates do not generate sufficient revenue and costs exceed estimates.
5. The board should continue its efforts to reduce the number of deficiencies cited by state and federal inspectors and to improve the residents' quality of life.

6. The board should adopt a formal, written policy requiring employees and on-site Diversified employees to disclose potential conflicts of interest. The policy should include procedures for identifying conflicts. The board should revise its policy to require board members to update disclosure statements periodically and whenever changes in financial or personal interests occur.
7. The board should establish procedures for its notification, before contract approval, of contracts involving subsidiaries of Diversified and consider requiring Diversified to periodically submit a statement disclosing all its business subsidiaries.
8. The board should compile and analyze data on the homes' operations to monitor and evaluate those operations and submit annual reports to the Governor to comply with its statutory responsibility.