

**Joint Legislative Committee on Performance  
Evaluation and Expenditure Review (PEER)**

Report to  
the Mississippi Legislature



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# **A Review of the Veterans Affairs Board's Funding of State Veterans' Homes**

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The Legislature established the state veterans' homes, operated by the State Veterans Affairs Board (VAB), to be self-supporting. When VAB sought authority for creation of the four veterans' homes, VAB told the Legislature that, aside from one-time state general fund appropriations necessary to start up each of the homes, the homes' operations costs would be funded entirely through non-state sources (e.g., federal funds and resident charges). However, VAB's reliance on state general funds for the homes increased to \$2.8 million in FY 2001 and VAB continues to increase its requests for state funds. However, VAB has not fully implemented recommendations PEER made in May 2000 to maximize efficiency in operation of the homes and to maximize non-state revenues funding the homes.

VAB has followed some of PEER's May 2000 recommendations, including terminating payments for resident hospital costs (which could have led to significant costs in the event of catastrophic illness of an uninsured resident). However, VAB has not followed other recommendations, because it continues to employ non-nursing staff at a rate greater than that for comparably sized nursing homes in the state and it also continues to pay the nursing home management company for nursing hours not received.

During the 2000 Regular Session, the Legislature amended state law to allow the Veterans Affairs Board to be solely responsible for the operation and maintenance of the state veterans' home located in Collins, Mississippi, beginning July 1, 2000. The law stated that VAB's mission in managing the Collins facility is to provide care for veterans "in the most cost efficient manner." However, a nine percent increase in costs per resident day for the Collins home during FY 2001 indicates that VAB did not fulfill its goal to operate the home more efficiently than did the private management company.

## **PEER: The Mississippi Legislature's Oversight Agency**

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The Mississippi Legislature created the Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER Committee) by statute in 1973. A flowing joint committee, the PEER Committee is composed of five members of the House of Representatives appointed by the Speaker and five members of the Senate appointed by the Lieutenant Governor. Appointments are made for four-year terms with one Senator and one Representative appointed from each of the U. S. Congressional Districts. Committee officers are elected by the membership with officers alternating annually between the two houses. All Committee actions by statute require a majority vote of three Representatives and three Senators voting in the affirmative.

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The Committee assigns top priority to written requests from individual legislators and legislative committees. The Committee also considers PEER staff proposals and written requests from state officials and others.

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The Mississippi Legislature

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September 11, 2001

Honorable Ronnie Musgrove, Governor  
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Honorable Tim Ford, Speaker of the House  
Members of the Mississippi State Legislature

On September 11, 2001, the PEER Committee authorized release of the report entitled **A Review of the Veterans Affairs Board's Funding of State Veterans Homes.**

A handwritten signature in cursive script, appearing to read "Herb Frierson".

Representative Herb Frierson, Chairman

**This report does not recommend increased funding or additional staff.**

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# A Review of the Veterans Affairs Board's Funding of State Veterans' Homes

## Executive Summary

This review focuses on the extent to which the state veterans' homes have become self-supporting since PEER released its May 2000 report entitled *Mississippi's State Veterans' Homes: An Analysis of Increasing Reliance on State General Funds and An Examination of Cost Reduction and Funding Options*. In order to answer this question, PEER primarily followed up on recommendations contained in the report.

## Background

State law authorizes the Veterans Affairs Board to establish homes to "provide domiciliary care and other related services for eligible veterans of the State of Mississippi" (MISS. CODE ANN. Section 35-1-19 [1972]). The board has established state veterans' homes in Jackson, Collins, Oxford, and Kosciusko. Each of these homes was built to accommodate 150 residents. As of June 30, 2001, a total of 588 residents lived in the four homes, with an occupancy rate of 98%. The homes provide residents with comprehensive care, including room and board, nursing and physician's services, prescription drugs, and ambulance service.

The Veterans Affairs Board contracts with a management company, Diversified Health Services, to handle day-to-day management of the homes in Jackson, Oxford, and Kosciusko. VAB has directly operated the Collins veterans' home since July 2000.

## Follow-Up Conclusion

**The Veterans Affairs Board continues to increase its requests for state general funds, although it has not fully implemented PEER's May 2000 recommendations to maximize efficiency in operation of the state veterans' homes or to maximize non-state revenues funding the homes.**

Mississippi's state veterans' homes were established to be self-supporting. When the Veterans Affairs Board sought authority for creation of the state's four veterans' homes, VAB told the Legislature that, aside from one-time state general fund appropriations necessary to start up each of the homes,

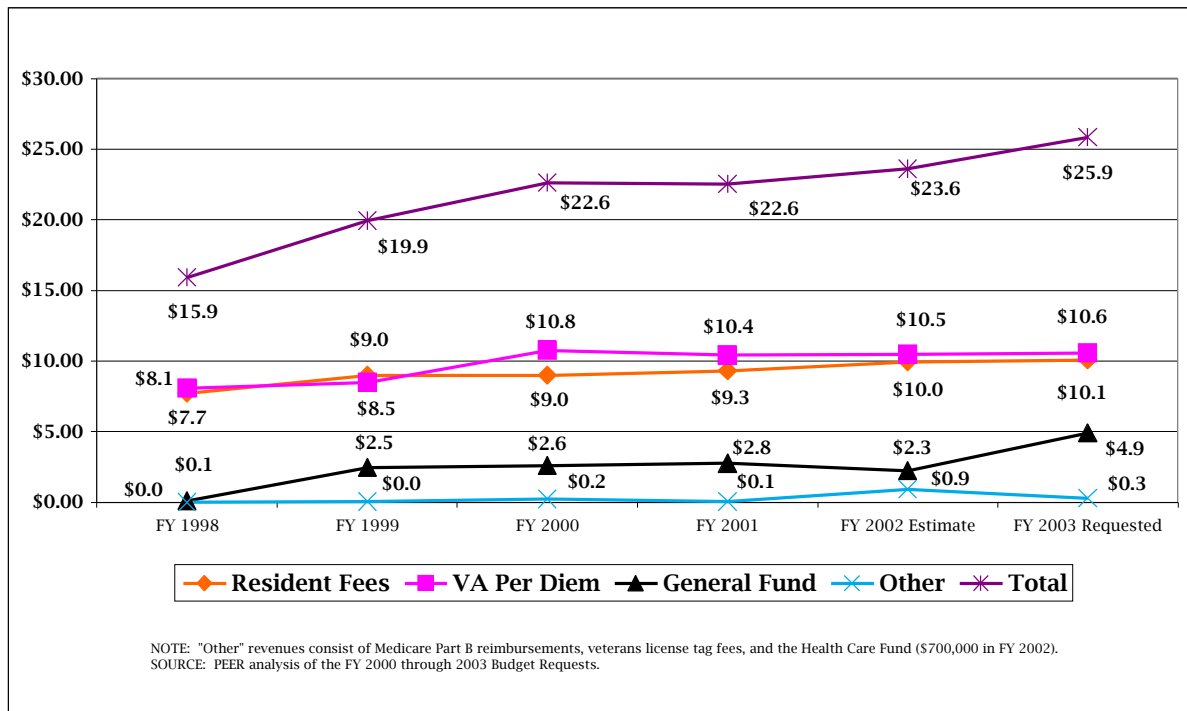
operations costs would be funded entirely through non-state sources (e.g., federal funds and resident charges).

In 2000, PEER found that general fund support for state veterans' home operations grew from zero in FY 1990 through 1994 to 13% in FY 1999. PEER again reviewed VAB in 2001, focusing on the extent to which the state veterans' homes have become self-supporting since PEER released its May 2000 report and whether VAB had followed PEER's recommendations.

VAB has followed several of PEER's recommendations, including terminating payments for resident hospital costs (which could have led to significant costs in the event of catastrophic illness of an uninsured resident) and increasing resident fees. However, VAB has not followed other recommendations, because it continues to employ non-nursing staff at a rate greater than that of comparably sized nursing homes in the state and it also continues to pay the nursing home management company for nursing hours not received.

Since PEER's May 2000 report, VAB's reliance on state general funds for the state veterans' homes continued to increase through the state fiscal year ending June 30, 2001, to \$2.8 million, the highest amount since the program's inception in 1990. Subsequent to the May 2000 PEER report, the Legislature decided to reduce its state funding for VAB state veterans' homes to approximately \$2.3 million in FY 2002. Nevertheless, VAB has requested \$4.9 million in state general funds for the state veterans' home program for FY 2003, or more than double the amount appropriated for FY 2002. (See the Exhibit, page ix.)

**Exhibit: Trends in Sources of Revenue for the VAB State Veterans' Home Program, FY 1998 to 2001, 2002 Estimate, and 2003 Request (in Millions)**



**The Veterans Affairs Board's Management of Collins Veterans' Home Costs**

During the 2000 Regular Session, the Legislature amended the law to allow the State Veterans Affairs Board to be solely responsible for the operation and maintenance of the state veterans' home located in Collins, Mississippi, beginning on July 1, 2000. The VAB Executive Director stated that he appealed to the Legislature to allow VAB to run the Collins home because of numerous complaints the board had received regarding the quality of care of the Collins home. He believed that VAB could operate the home more efficiently while also providing better care in the process. However, as noted below, PEER has not found evidence that would indicate that VAB has operated the home more efficiently.

**A nine percent increase in costs per resident day for the Collins home during FY 2001 indicates that VAB did not fulfill its goal to operate the home more efficiently than did the private management company in FY 2000.**

VAB costs per resident per day and costs in total for the Collins home exceeded VAB costs for the other three veterans' homes in FY 2001. VAB's FY 2001 costs for the Collins home were \$5.72 million. Costs ranged from \$5.3 to \$5.4 million for the other three homes during the year.



The increased per-resident costs at the Collins home imply that the home had a higher level of direct care nursing hours. However, VAB's level of direct nursing care hours provided to the veterans' home at Collins was the next to the lowest of the four homes during the year.

**VAB has not yet conducted costs analysis in preparation for filing a statutorily required report by January 1, 2002, with Senate and House committees specifying whether VAB should continue to operate the Collins home.**

MISS. CODE ANN. Section 35-1-21 states that "on or before January 1, 2002, the State Veterans Affairs Board shall file a report with the Chairman of the Senate Veterans and Military Affairs Committee and the Chairman of the House Military Affairs Committee specifying its recommendations on whether to continue to manage the Collins, Mississippi, home or to contract with a nongovernmental entity to operate the home."

Although VAB knew in the spring of 2000 that it would be required to report on its cost efficiency in operating the Collins home, VAB has not adequately prepared since that time to ensure that its report will be thorough and accurate. As of August 2001, VAB had not provided documentation to PEER showing any comparisons of the current Collins home operations with previous management company operations. VAB also had not established accounting system codes to capture costs for FY 2001 in a manner that would allow a complete and consistent comparison to costs incurred by the management company in FY 2000. Also, VAB has not conducted an economy and efficiency study (using existing resources) to determine the "most efficient organization and operation" of the veterans' homes for comparison with bids to be received in the current management company contract bidding process.

## Recommendations

1. The Legislature should amend MISS. CODE ANN. Section 35-1-21 (4) to allow VAB to contract out the running of the Collins home by a private company if it is found that the company can do so more efficiently than VAB.
2. In performing its legislatively required cost-efficiency review for the legislative committees in January 2002, VAB should study the various categories (e.g., minor object codes for budgeting purposes) of expenditures of the Collins home both before and after its operation by VAB to determine areas of efficiency and inefficiency and resulting prospects for improvement.
3. In determining whether VAB should continue to operate the Collins home directly or through a management company, VAB should review bids received for private operation and

compare them to state costs of operating the home in an efficient manner, as determined in Recommendation 2.

4. VAB should specifically review its non-nursing staffing to determine where it may achieve efficiencies, especially at the VAB offices, and determine:
  - where state employee duties overlap with duties already provided by the nursing home management company staff;
  - where VAB may include state employee duties within the management company contract so that they can be contracted out to the lowest and best bidder--e.g., landscaping and building maintenance services, accounting for resident personal funds, contracting with medical service providers.

VAB should calculate the cost of these duties at the state agency level so that it can determine if bids to provide these services are competitive. In order to determine this, VAB can require the bidders for management company services to bid separately for these items but as part of the overall contract.

Regarding services currently provided by state employees that VAB may choose to contract out in the future, VAB should ensure that one of its employees monitors the management company's performance of these services, as well as fulfillment of other terms of the contract.

5. VAB should closely review contract provisions of all future management company contracts to ensure that they are most cost-beneficial to VAB. For example, in order to ensure that nursing home management company staff use building utilities efficiently, VAB should require that the management company pay for utilities--i.e., electricity, gas, water, and sewerage--at the veterans' homes as part of its contract.
6. If VAB continues to operate the Collins home, it should set up its coding of accounts to capture expenditures by function or activity (e.g., housekeeping versus nursing versus administrative costs) in the state accounting system. VAB should set up these codes for the purpose of monitoring its costs more closely and make efficiency comparisons with homes operated by private companies. To facilitate cost comparisons, VAB should also require that VAB nursing home contractors compile financial statements using the same fiscal year as the state and provide them to VAB in computerized format to facilitate spreadsheet analysis.
7. To reduce dependence on state general funds, VAB should continue to review its resident fee structure and increase resident fees when feasible and as needed to cover veterans' home costs, especially when the average income of residents is sufficient to withstand increased fees.

8. VAB should also periodically reassess the potential for other non-state funding sources, including Medicare Part A and B and Medicaid.
9. VAB should determine the amount of direct nursing care hours needed for its homes and then negotiate contracts for which VAB will only pay for direct nursing services rendered and for which VAB will impose a penalty for failure to meet required levels of care.
10. In the event that VAB determines that it will allow Diversified to end its nursing home management contract prior to June 30, 2002, VAB should require Diversified Health Services to fulfill its agreement to reimburse VAB all amounts for past nursing services not provided (\$367,174 plus the remainder of the \$8,826.96 monthly payments due through June 2002). Prior to or upon the date of the termination of the contract, Diversified should pay VAB the full amount of all future payments due.
11. VAB should not take over operations of the Jackson, Oxford, or Kosciusko homes (i.e., directly operate the homes instead of contracting their operation to a nursing home management company), at least until such time as financial data indicates that VAB can operate the Collins home more efficiently than the management company has operated the other three homes.

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# A Review of the Veterans Affairs Board's Funding of State Veterans' Homes

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## Introduction

### Authority

The PEER Committee authorized a review of the Veterans Affairs Board (VAB) pursuant to the authority granted by MISS. CODE ANN. Section 5-3-57 et seq. (1972).

### Scope and Purpose

This review focuses on the extent to which the state veterans' homes have become self-supporting since PEER released its May 2000 report entitled *Mississippi's State Veterans' Homes: An Analysis of Increasing Reliance on State General Funds and An Examination of Cost Reduction and Funding Options*. In order to answer this question, PEER primarily followed up on recommendations contained in the report.

### Method

In conducting this review, PEER:

- reviewed state law governing the Veterans Affairs Board;
- reviewed and analyzed financial, personnel, and management records and contracts of the Veterans Affairs Board;
- reviewed and analyzed records of Diversified Health Services and the Mississippi State Department of Health; and,
- interviewed Veterans Affairs Board staff.

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## Background

MISS. CODE ANN. Section 35-1-19 (1972) authorizes the Veterans Affairs Board to establish homes to "provide domiciliary care and other related services for eligible veterans of the State of Mississippi." To date, the board has established four state veterans' homes in the following locations: Jackson (January 1989), Collins (August 1996), Oxford (October 1996), and Kosciusko (March 1997). Each of these homes was built to accommodate 150 residents, a total of 600 for the four homes. As of June 30, 2001, there were 588 residents in the homes, with an occupancy rate of 98%.

The state veterans' homes provide residents with comprehensive care, including room and board, nursing and physician's services, prescription drugs, and ambulance service.

The homes are licensed by the state's Department of Health, but are not certified to receive Medicare or Medicaid funds. The homes do, however, meet federal Department of Veterans Affairs (VA) construction and staffing standards necessary to receive a VA per diem for each veteran resident.

## Organizational Structure

The Veterans Affairs Board has three operational divisions, as well as a central administrative staff. VAB's Claims Division assists veterans in obtaining state and federal veterans' benefits. VAB's State Approving Agency Division approves education and training programs for compliance with federal regulations governing the distribution of General Issue (G.I.) bill funds to veterans. VAB's Nursing Homes Division is responsible for operation of the four state veterans' homes.

VAB has directly operated the Collins veterans' home since July 2000, as provided by legislation from the 2000 regular legislative session. The Veterans Affairs Board also contracts with a management company, Diversified Health Services, to handle day-to-day management of the other three homes in Jackson, Oxford, and Kosciusko. This company, which employs an administrator at each home to oversee operations, is responsible for hiring and supervising all direct care staff (i.e., certified nursing assistants, registered nurses, and licensed practical nurses) and other support personnel such as laundry staff, kitchen workers, dieticians, and housekeeping employees. The company sub-contracts rehabilitative services (occupational, physical, and speech therapy). Diversified Health Services has managed the Kosciusko and Oxford homes since FY 1998 and the Jackson home since FY 1999.

In addition to its contract with the management company, the Veterans Affairs Board independently contracts for the following services at each of its homes: physician, podiatrist, relief pharmacist, and ambulance.

## Revenue Sources for Operation of the State Veterans' Homes

VAB funds its state veterans' home operations through three primary sources of funds:

- *Federal VA Per Diems*—VAB receives a per-day payment from the Department of Veterans Affairs (referred to as a VA per diem) for each veteran resident in the homes;
- *Resident Fees*— VAB charges veteran residents a daily fee to apply to the cost of their care; and,
- *State General Funds*—In FY 1995, the Legislature began to appropriate general funds to VAB for operation of the homes.

Other VAB sources of funds for the homes include:

- *Health Care Expendable Fund*—The Legislature appropriated a new source of funds in support of the state veterans' homes for FY 2002;
- *Veterans' Specialty License Tag Fees*—MISS. CODE ANN. Section 27-19-56.12 (1972) allows veterans to purchase special motor vehicle license tags or plates that identify them as veterans. State law specifies that these fees be used for the benefit of indigent residents who are residents of the homes.
- *Medicare Part B Reimbursements for Medical Services*—Medicare Part B is medical insurance available to persons sixty-five or older (and in certain cases, disabled individuals who are under sixty-five years of age) who pay a monthly premium. It primarily covers physician's services, outpatient care, diagnostic tests, durable medical equipment, and ambulance services. Medicare Part B reimburses 80% of eligible charges for physician's and medical services rendered to residents of the state veterans' homes, after the deductible of \$100 per resident per year has been met.

In FY 1997, the Veterans Affairs Board began contracting with physicians on a flat monthly fee basis (not affected by the number of medical services performed) in exchange for the reassignment to the board of their Medicare Part B insurance claims for services provided to residents of the homes. The Health Care Financing Administration allows physicians to reassign their claims to a contractual employer such as the Veterans Affairs Board.

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## Follow-Up Review

**The Veterans Affairs Board continues to increase its requests for state general funds, although it has not fully implemented PEER's May 2000 recommendations to maximize efficiency in its operation of the state veterans' homes or to maximize non-state revenues funding the homes.**

**The Legislature established Mississippi's state veterans' homes to be self-supporting, but VAB's reliance on state general funds for the veterans' homes has continued to increase.**

Mississippi's state veterans' homes were established to be self-supporting. When the Veterans Affairs Board sought authority for creation of the state's four veterans' homes, VAB told the Legislature that, aside from one-time state general fund appropriations necessary to start up each of the homes, operations costs would be funded entirely through non-state sources (e.g., federal funds and resident charges).

In 2000, PEER reviewed the Veterans Affairs Board to determine whether VAB had increased its reliance on state general funds to operate the state veterans' homes. PEER found that general fund support for operations grew from zero in FY 1990 through 1994 to 13% in FY 1999. On May 9, 2000, PEER issued its report, *Mississippi's State Veterans' Homes: An Analysis of Increasing Reliance on State General Funds and An Examination of Cost Reduction and Funding Options*.

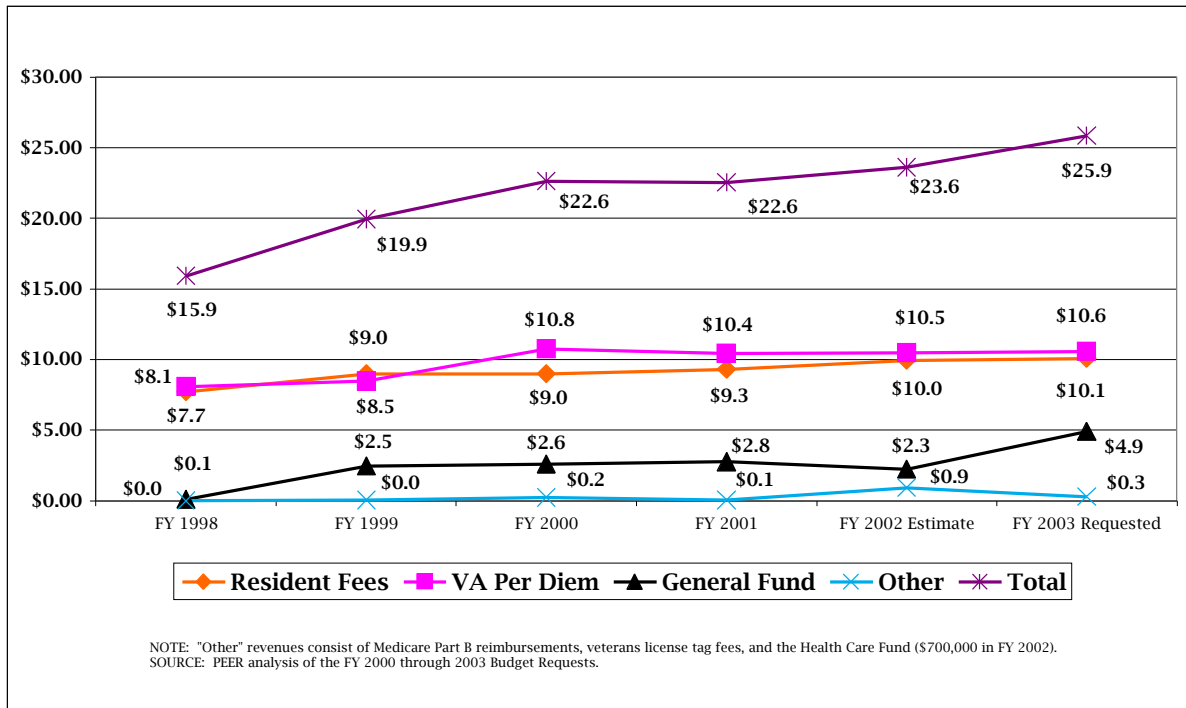
PEER again reviewed VAB in 2001, focusing on the extent to which the state veterans' homes have become self-supporting since PEER released its May 2000 report and whether VAB had followed PEER's recommendations. PEER found that VAB had followed several of its recommendations, including terminating payments for resident hospital costs (which could have led to significant costs in the event of catastrophic illness of an uninsured resident) and increasing resident fees. However, VAB had not followed other recommendations, because it continues to employ non-nursing staff at a rate greater than that of comparably sized nursing homes in the state and it continues to pay the nursing home management company for nursing hours not received.

**VAB has requested \$4.9 million in state general funds for the veterans' home program for FY 2003, more than double the amount designated for veterans' homes in VAB's FY 2002 budget.**

Since the May 2000 report, VAB's reliance on state general funds for the state veterans' homes continued to increase through the state fiscal year ending June 30, 2001, to \$2.8 million, the highest amount since the program's inception in 1990. Exhibit 1, page 5, shows VAB's revenues by source from FY 1998 to FY 2001 and shows the estimated revenues and appropriated state funds for 2002 and the projected revenues and requested state general funds for 2003. The exhibit shows that subsequent to the May 2000 PEER report, the Legislature decided to reduce its state funding for VAB state veterans' homes to approximately \$2.3 million in FY 2002. Nevertheless, VAB has requested \$4.9 million in state general funds for the state veterans' home program for FY 2003, or more than double the amount appropriated for FY 2002.

The following sections address issues covered by the follow-up review. Each section first summarizes PEER's May 2000 conclusions and recommendations, notes VAB's actions since the 2000 review, and discusses follow-up conclusions.

**Exhibit 1: Trends in Sources of Revenue for the VAB State Veterans' Home Program, FY 1998 to 2001, 2002 Estimate, and 2003 Request (in Millions)**



**Controlling Veterans' Home Costs**

**Hospital Costs**

*The Veterans Affairs Board followed PEER's recommendation to discontinue the practice of paying hospitalization costs for its residents, effective September 1, 2000.*

In May 2000, PEER estimated that VAB could save approximately \$45,000 annually by discontinuing the practice of paying veteran residents' hospitalization costs. PEER noted in the report that there was no limit to the expenses that VAB could incur for residents treated in non-VA hospitals under the board's policy to provide comprehensive medical care to veterans. VAB had stated



that in the event of insufficient funds to pay hospitalization costs, the board would ask the Legislature for a deficit general fund appropriation.

**VAB's action to discontinue payments for residents' hospital expenses could save \$45,000 per year or more.**

Since the May 2000 report, VAB has followed PEER's recommendation to discontinue payments for hospital expenses. On May 12, 2000, the board voted that VAB would no longer be responsible for residents' hospitalization costs, effective September 1, 2000. This could save VAB up to \$45,000 yearly or more, as VAB paid \$45,704 in hospital charges for veterans' home residents in FY 1999.

## Staffing

***The Veterans Affairs Board did not follow PEER's recommendation to reduce the non-nursing staff level at the veterans' homes to non-nursing staff levels of comparably sized nursing homes in Mississippi.***

In the May 2000 report, PEER noted that the number of non-nursing care staff at VAB homes was greater on average than the number of non-nursing staff at comparably sized nursing homes in the state. At that time PEER recommended that VAB reduce its non-nursing staff to levels of other similar sized homes. During the 2001 review, PEER found that VAB had not reduced the level of non-nursing staff.

Specifically, for every 150 residents on December 31, 2000, VAB employed non-nursing staff of about 56 full-time state and contractual employees and 13 contractual part-time employees. Department of Health data shows that comparably sized nursing homes (those having 130 to 170 beds compared to VAB's 150 beds for each of the four homes) employed only 45 full-time and 8 part-time nursing employees for every 150 residents on that date, as shown in Exhibit 2, below.

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### Exhibit 2: Non-Nursing Staff Per 150 Residents—Comparison of Staffing at VAB Homes to Staffing at Comparably-Sized Nursing Homes in Mississippi\*

	<i>December 31, 1998</i>		<i>December 31, 2000</i>	
	<i>Full-time</i>	<i>Part-time</i>	<i>Full-time</i>	<i>Part-time</i>
Average VAB Home (including state and contractual staff)	54	12	56	13
Average Comparable Home	42	9	45	8

\*based on average number of staff per 150 residents

SOURCE: PEER analysis of Department of Health and State Personnel Board reports

**The average number of non-nursing staff at VAB homes exceeds the average number at comparably sized nursing homes by 44 full-time and 19 part-time employees, at an estimated cost of \$1.2 million.**

Both state veterans' homes and comparably sized homes experienced increases in the numbers of non-nursing staff between December 31, 1998 (as reported in PEER's May 2000 review of VAB) and December 31, 2000. Full- and part-time non-nursing employees at comparable homes increased by a net of about two on average and VAB full- and part-time non-nursing employees increased by about three for every 150 residents.

Based on this data, VAB, including Diversified Health Services, employs 11 more full-time and 5 more part-time non-nursing staff for each 150 residents than the state's other comparably sized nursing homes. This results in a total of approximately 44 full-time and 19 part-time employees that exceed the staffing norm at the four homes, at an estimated cost of \$1.2 million.

The VAB Executive Director stated that several factors could account for why VAB has more full-time equivalent non-nursing positions than other comparable nursing homes. Although the Executive Director did not offer supporting documentation for his conclusions, he believes that:

- more staff provide transportation (drivers and their assistants) to residents for medical appointments at VAB veterans' homes than is provided at comparable homes;
- VAB homes employ more social workers than do the comparable homes; and,
- additional workers are needed to maintain the grounds at VAB homes, which cover between 11 and 25 acres each.

He also stated that at VAB veterans' homes, staff are hired to assist veterans with applying for veterans' benefits (a service that is not offered at other homes).

## **Reimbursement of Payments for Nursing Services Not Rendered**

***The Veterans Affairs Board took steps to address PEER's recommendation to pursue reimbursement of funds paid to Diversified Health Services (Diversified) for direct care nursing services never rendered. However, VAB has not recovered approximately \$367,174 of the \$956,399 due from Diversified under the original contract terms. Under contract amendments subsequent to PEER's recommendations, VAB continues to pay Diversified full compensation for some direct care nursing hours which it does not receive.***

In May 2000, PEER reported that VAB had paid its nursing home management company, Diversified Health Services (Diversified), \$477,000 for over 59,000 hours of direct care nursing hours not actually provided to veterans' home residents. (The amount paid for services not received had increased to \$956,000 as of June 2001, a portion of which had been recovered by VAB, as discussed below.) As reported in May 2000, VAB had contracted for

Diversified to provide 3.74 direct care nursing hours per resident per day, but Diversified had provided an average of only 3.33 direct care nursing hours per day. At that time, PEER recommended that VAB:

- require Diversified to provide direct care nursing staff in accordance with the terms of the contract;
- consult with the VAB attorney and the Attorney General's Office for assistance in exercising remedies under the law if Diversified failed to meet the contractual levels of staffing; and,
- consult with the VAB attorney and the Attorney General's Office to determine possible actions for seeking reimbursement of funds paid to Diversified for direct care nursing services never rendered.

**Instead of withholding amounts from current payments to Diversified, VAB deducts reimbursements from the company in the quarter following the non-performance.**

Since that time, VAB has taken steps to collect reimbursements for payments to Diversified for direct nursing care hours that were never rendered. However, VAB has allowed Diversified to pay only a portion of the funds that were due to VAB under the contract. Also, through contract amendments, VAB continues to allow Diversified to provide nursing care hours at a level below that required in the original contract on an ongoing basis. VAB does have an agreement to collect some portions of amounts due for current non-performance. However, instead of withholding amounts from current payments to Diversified, VAB deducts reimbursements from Diversified in the quarter following the non-performance.

*As result of PEER's May 2000 review, VAB negotiated a contract amendment that allows it discretion in whether to pay Diversified full compensation, even when Diversified does not provide the original 3.74 direct nursing care hours required per resident.*

To recover fees paid to Diversified for nursing hours not provided from July 1999 to March 2000, VAB negotiated reimbursements from the management company for each of the twenty-four months in FY 2001 and FY 2002. Also, VAB entered into an agreement to reduce its payment to the management company in the third month of each calendar quarter subsequent to March 2000 for certain nursing hours contracted for but not provided to VAB. (See page 10 for details on amounts.) However, according to a July 2000 contract amendment, VAB began to allow Diversified to provide fewer nursing hours than the 3.74 hours per day required in the original contract without penalizing the company.

Specifically, VAB agreed in July 2000 to a two-tier form of compensation. First, if average direct care nursing hours fell below a certain amount (different for each home), then VAB would deduct \$8.25 for each hour that was not provided. (See Exhibit 3, page 9.) If Diversified provided hours between that amount (for instance, 3.5 hours for the Jackson home) and the original 3.74 nursing hours required, then VAB would allow the contractor to

submit documentation to show that it was "substantially in compliance" with the contract. VAB then had the discretion to pay Diversified for the full 3.74 hours, even if a minimum of 3.5 hours were provided, or to deduct from payments to the contractor at a rate less than \$8.25 an hour. (In fact, PEER noted that VAB had made some payments to the contractor at the rate of \$7.00 an hour.)

As shown in the exhibit, VAB further relaxed the criteria, phasing in the requirements allowing an even smaller number of direct nursing hours in March 2001.

**Exhibit 3: Direct Care Nursing Hours Enforced Per Diversified Contract Amendments**

<i>Home Location</i>	<b>Original June 1999 Contract</b>	<b>July 2000 Amendment</b>		<b>March 2001 Amendment</b>	
	<i>Hours Required in Contract</i>	<i>Maximum Hours Required in Contract</i>	<i>Minimum Hours to Be Enforced per Contract *</i>	<i>Maximum Hours Required in Contract</i>	<i>Minimum Hours to Be Enforced per Contract *</i>
Jackson	3.74	3.74	3.5	Phase 1 - 3.68 Phase 2 - 3.58	Phase 1 - 3.44 Phase 2 - 3.34
Kosciusko	3.74	3.74	3.6	Phase 1 - 3.68 Phase 2 - 3.58	Phase 1 - 3.54 Phase 2 - 3.44
Oxford	3.74	3.74	Phase 1 - 3.15 Phase 2 - 3.25 Phase 3 - 3.35 Phase 4 - 3.5	Phase 1 - 3.68 Phase 2 - 3.58	Phase 1 - 3.29 Phase 2 - 3.34

NOTE: \* Hours phased in through April 2001. See report text for explanation of minimum contractual hours.

SOURCE: VAB contracts with Diversified Health Services

*For FY 2000 through FY 2001, the Veterans Affairs Board paid Diversified \$956,399 for nursing services originally contracted for but not rendered. Through negotiated reimbursements, VAB will recover \$589,225; however, VAB has no plans to recover \$367,174 of the amount.*

PEER calculated that there has been a shortage of 117,289 nursing hours provided to VAB by Diversified based on the original contract dated June 1999. Exhibit 4, page 10, shows that the cost of the shortage of nursing hours totaled \$956,399 through June 2001--i.e., the number of direct care nursing hours provided by Diversified that fall short of the 3.74 hours in the original June 1999 contract. (The cost of the direct nursing hour shortage has increased from the \$477,000 calculated in the May 2000 PEER report because VAB negotiated contract amendments to allow Diversified to provide fewer than 3.74 nursing hours.) Also, as

described above, VAB negotiated a settlement of \$247,609 from the management company consisting of:

- monthly reimbursements of \$8,826.96 in FY 2001 and FY 2002, a total of \$211,847; and,
- a \$35,762 credit (for fixed assets that became the property of VAB two years prior to scheduled expiration since the Collins Home was removed from the contract).

Exhibit 4 also shows that, as of June 2001, VAB had collected an additional \$152,391 in reimbursement for the FY 2000 contract period and \$189,225 for FY 2001. As a result, VAB is expected to recover only \$589,225 of the \$956,399 cost of the 3.74 nursing hours per resident originally required. The total amount of funds to be recovered for the period ending June 2001 is \$367,174.

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#### **Exhibit 4: Amount Not Recovered from Diversified for FY 2000-1**

	<b>FY 2000</b>	<b>FY 2001</b>	<b>Total</b>
Total Cost of Shortage of Nursing Hours	(\$683,552)	(\$272,847)	(\$956,399)
Settlement Amount for Diversified's Past Non-performance*	247,609		247,609
Amount Withheld from Quarterly Payments to Diversified	<u>\$152,391</u>	<u>\$189,225</u>	<u>\$341,616</u>
<b>Estimated Total Amount Not Recovered for FY 2000 and FY 2001 Diversified Contracts</b>	<b>(\$283,552)</b>	<b>(\$83,622)</b>	<b>(\$367,174)</b>

NOTE: \*Final payment to be received in June 2002

SOURCE: PEER analysis of VAB documents and reports of direct nursing hours provided

## **Efforts to Increase Revenues to Fund the Veterans' Homes**

### **Increasing Resident Fees**

*Since the May 2000 PEER report, VAB has increased its resident fees from \$44 to \$46 per day effective December 31, 2000, resulting in an additional \$430,000 in revenues, or 2% of the veterans' home program budget. The board has planned additional increases of \$1 per day effective December 31, 2001, and \$1 per day effective December 31, 2002.*

In May 2000, PEER found that the average income of veterans' homes residents was sufficient to support future increases in VAB resident fees. PEER recommended that VAB consider increasing resident fees to the extent necessary to support efficient operations of the veterans' homes in lieu of asking for additional general fund support.

**Subsequent to PEER's May 2000 report, VAB increased resident fees, but also increased its reliance on general fund revenues.**

Subsequent to the May 2000 PEER report, in October 2000 VAB increased resident fees sufficient to increase revenues from resident fees by approximately \$430,000. However, the board also increased its reliance on general fund revenues during the period. Specifically, the board increased resident fees by \$2 per day, to a total of \$46 per day effective December 31, 2000. The two-dollar additional fee increased total revenue from resident fees from about \$9.1 million in FY 2000 to approximately \$9.6 million in FY 2001. The \$430,000 represents 2% of the FY 2001 veterans' home program budget of \$22.7 million. General fund revenues to VAB increased by \$158,311, from \$2,602,464 in FY 2000 to \$2,760,464 in FY 2001.

The \$2 per day resident fee increase effective December 2000 cost residents \$730 per year, which was covered by average income for single and married residents of \$7,756 and \$15,696 in annual income after payment of resident fees (calculated in the May 2000 PEER report).

On July 13, 2001, the board also approved resident fee rate increases to \$47 per day effective December 31, 2001, and \$48 per day effective December 31, 2002.

## **Ensuring Full Collection of Medicare Part B and Secondary Insurance Claims**

***VAB attempted to comply with PEER's recommendation to ensure that it file for all eligible Medicare claims. However, due to problems in complying with federal filing requirements and resulting changes in VAB's billing procedures, VAB did not collect these reimbursements during FY 2001. VAB plans to resume filing for Medicare Part B and secondary insurance claims beginning on October 1, 2001, and to begin billing residents for Medicare co-payments on each claim.***

In May 2000, PEER found that VAB did not have a process to ensure that all eligible Medicare Part B claims were being filed with the Health Care Financing Administration (or HCFA, the federal agency in charge of Medicare at the time of the last review) for reimbursement.<sup>1</sup> VAB had not enforced contract provisions with its billing contract to ensure that the agency maximized Medicare Part B and other potential insurance reimbursements. During FY 1998 and FY 1999, the board did not collect an estimated \$48,000 in Medicare Part B reimbursement for podiatrist's services and at least \$1,167 for flu vaccines. VAB was not ensuring complete filing for Medicare Part B reimbursements.

PEER found that since 2000, VAB has taken steps to increase its filings by hiring an additional employee and assigning current staff to the task. However, the process has not yet resulted in Medicare reimbursements to VAB, as outlined below.

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<sup>1</sup> HCFA's name has since been changed to the Centers for Medicare and Medicaid Services. Thus the agency will be referred to as CMS for purposes of the current review.  
PEER Report #423

**Since PEER's May 2000 report, VAB has hired a staff member with Medicare billing experience to file and receive reimbursements for Medicare Part B claims.**

*Medicare billing*--Per VAB's Executive Director, VAB has hired a new staff person with Medicare billing experience to file and receive reimbursements for Medicare Part B claims. VAB has also purchased Medicare-billing software. Although Medicare billing was handled by a contractor during the period of PEER's 2000 review, the billing is now handled internally. (According to the Executive Director, VAB began to handle billing internally because no contractor bid to handle the Medicare billing on a flat fee basis. PEER had recommended flat fee payments to billing contractors because of recommendations by CMS officials. See page 16 for discussion.)

VAB is uncertain if it will be able to recoup reimbursement for past Medicare expenses (primarily FY 2001) because of CMS regulations that VAB cannot claim Medicare Part B payments unless it bills residents individually for each Medicare co-payment amount. In the past VAB did not bill residents individually for co-payment amounts but considered that the residents' monthly fee would cover any necessary Medicare co-payments. However, during FY 2001, during the process of VAB's bringing the billing in-house, CMS informed VAB that a resident's monthly fee could not be used to meet the resident's Medicare Part B deductible and co-insurance. Specifically, CMS stated, "with a flat fee, all residents would be paying the same, even though they receive different services. Medicare, as a fee-for-service program, pays per service rendered to an individual. Each beneficiary's co-payment, then, should parallel the services that that individual received." VAB stated that it has been in the process of setting up an accounting system to bill its residents for Medicare Part B co-payments. The agency reported that it plans to begin to file claims for Medicare Part B reimbursements in October 1, 2001, including billing residents individually for co-payments.

*Secondary insurance billing*--PEER had also recommended during the 2000 review that VAB review all past remittance notices and secondary insurance contracts of residents to determine whether secondary insurance reimbursements due but not paid to the board could be recovered. Also during the 2000 review, PEER had specifically recommended that VAB verify that:

- secondary insurance information on its residents is up to date and accurate; and,
- any Medicare Part B filings returned to VAB with a notation of incorrect secondary insurance policy numbers have been re-filed with the correct numbers.

**VAB will not be able to pursue secondary insurance payments until its new process for billing for Medicare Part B claims begins in October 2001.**

As of August 2001, VAB had delegated secondary insurance billing and duties to two staff people who are responsible for filing all secondary insurance claims and receiving reimbursements. VAB will not be able to pursue insurance payments that are secondary to Medicare until its new process for billing for Medicare Part B claims begins in October 2001, as described above.

## **Assigning Insurance Benefits for Medical Services to VAB**

***VAB has revised contracts with medical service providers to require that VAB, not the providers, will receive Medicare reimbursements for services, which legally entitles VAB to receive all reimbursements arising from services provided through the contracts.***

In the May 2000 review, PEER had found that although physicians at three veterans' homes verbally assigned their Medicare Part B reimbursements to the board in exchange for a monthly fee, the contracts did not assign the Medicare billings to the board. As a result, the board had not been legally protected to ensure its entitlement to Medicare Part B reimbursements. PEER recommended that VAB include language in its contracts with physicians and other medical service providers to reassign their Medicare B reimbursements to VAB.

In its current contracts with physicians, VAB has added language to indicate that VAB will bill and receive any fees or charges (including Medicare) for services rendered by each of the doctors.

## **Medicare Part A Reimbursement Option**

***Although VAB claims that it determined that it would not be cost effective to become federally certified to file for Medicare Part A reimbursement, it was unable to provide PEER with written documentation to support its decision.***

PEER determined during the May 2000 review of VAB that federal certification to receive Medicare Part A funds would result in increased federal funding to VAB, but that there would be negative monetary consequences for VAB at the same time. If VAB became federally certified, it could receive reimbursement for skilled nursing services currently being rendered, but would also have to pay for rehabilitative services from these funds, which are currently paid through Medicare Part B. PEER recommended that VAB evaluate the feasibility of filing for Medicare Part A reimbursement and assigning responsibility to residents for Medicare Part A co-payments, which can be paid through secondary insurance or family resources.

According to the Executive Director, after he visited several Mississippi nursing homes to review operations, he determined that becoming federally certified would not be an advantage because the cost of the paperwork involved and extra staff needed would exceed the benefits provided, given the number of people who would be eligible for Medicare Part A. However, VAB was not able to provide written documentation to PEER to support this conclusion.



## Medicaid Reimbursement Option

*VAB has not reassessed the feasibility of the veterans' homes becoming federally certified to receive Medicaid. VAB should conduct this assessment in the next two or three years to determine if this option becomes feasible, as income levels of state veterans' home residents change over time.*

**If income levels of veterans' home residents dropped over time, it could become feasible for VAB to complete a certification process to receive Medicaid funds.**

In late 1999, PEER analyzed demographic data for state veterans' home residents and determined that residents could lose up to \$962,000 annually in personal income if the homes became federally certified to receive Medicaid. The state's fiscal impact could range from an annual savings of \$578,000 to an annual increase in expenses of \$103,000 under this option. If income levels of veterans' home residents dropped over time, it could become feasible for VAB to complete a certification process to receive Medicaid funds. PEER recommended that VAB periodically reassess the feasibility of the homes becoming certified. As of August 2001, VAB had not reassessed the data.

Veterans' home residents' incomes may not have changed significantly from May 2000 when the report was issued. However, VAB should conduct the feasibility study in the next two years to determine whether the option has become viable.

## VAB Management and Operations

### Inappropriate Expenditures of General Funds

In the 1999 Regular Session, the Legislature appropriated \$3.1 million in general funds to VAB "for the purpose of providing the funds necessary to increase the direct care nursing staff that is needed to properly care for the men and women who reside in the four (4) State Veterans Homes." VAB requested the funds in order to increase the number of direct nursing care hours per resident to 3.74. The bill took effect from and after passage (on April 1, 1999) and therefore made available to VAB \$206,667 in general funds per month over the fifteen-month period for employing new nursing staff. VAB, however, did not incur costs for the new staff until July 1, 1999, when it entered a new contract for the additional staff.

**In 1999, VAB spent \$1.62 million of the \$3.1 million in general funds appropriated specifically for additional direct care nursing on other state veterans' home operating expenses.**

The cost of VAB's FY 2000 contract with its management company increased by an estimated \$3.1 million over the FY 1999 contract cost. In violation of the appropriations language, VAB spent \$1.62 million of the \$3.1 million general fund appropriation during FY 1999 on other state veterans' home operating expenses. PEER determined that VAB had sufficient cash on hand in special funds to cover these expenses. VAB's Executive Director told PEER that he used general funds instead of special funds to pay these operating expenses, because it allowed VAB to pay vendors in a more timely manner.

***VAB did not use FY 2000 special funds to replace the \$1.62 million in general funds that it inappropriately spent for general operation expenses in FY 1999. The Legislature had intended for the funds to be used for nursing care costs incurred in FY 2000.***

In May 2000, PEER recommended that VAB use FY 2000 special funds to replace the \$1.62 million in general funds that it inappropriately spent for general operation expenses in FY1999, as described above.

Per the Executive Director, VAB did not use special funds to replace the \$1.62 million in general funds. The Executive Director stated that VAB spent all of the special and general funds available to it in FY 2000.

***VAB did not return the \$620,000 to the state general fund it spent in violation of its FY 1999 appropriations bill. The Legislature re-appropriated the \$620,000 to VAB during the 2000 Regular Session.***

PEER had also recommended in May 2000 that VAB return \$620,000 to the state general fund for three months of service it did not receive when it wrote a twelve-month contract rather than a fifteen-month contract for new direct care nursing staff. (The \$620,000 represents three-fifteenths--i.e., three of fifteen months--of the \$3.1 million contract that VAB entered beginning June 1, 1999.) However, the Legislature re-appropriated the \$620,000 to VAB during the 2000 Regular Session.

## **Medicare Part B Billing Procedures**

***The Veterans Affairs Board followed PEER's recommendation to cease paying its Medicare billing contractor a percentage of billings.***

During the period covered by PEER's May 2000 review, VAB was compensating its Medicare billing contractor by paying her a percentage (8%) of Medicare billings rendered allowable by the Centers for Medicare and Medicaid Services (CMS), formerly HCFA. PEER determined (through review of regulations and discussions with a CMS representative) that this practice violated the intent of CMS's regulation 3060.10 designed to prevent fraud in the Medicare program. During the review, PEER recommended that VAB stop the practice of paying its Medicare billing contractor a percentage of billings.

VAB followed this recommendation by terminating its contract with the Medicare billing contractor and beginning an internal Medicare billing process. VAB has hired a person with billing experience to perform the billing and is also using an employee already on staff to help with the duties.

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## The Veterans Affairs Board's Management of Collins Veterans' Home Costs

During the 2000 Regular Session, the Legislature amended the law to allow the State Veterans Affairs Board to be solely responsible for the operation and maintenance of the state veterans' home located in Collins, Mississippi, beginning on July 1, 2000. MISS. CODE ANN. Section 35-1-21 states that VAB "shall not contract for management purposes with any nongovernmental entity or the United States Department of Veterans Affairs to operate the home. The State Veterans Affairs Board shall hire the administrator and all other personnel for the veterans home. The mission of the State Veterans Affairs Board in managing the Collins, Mississippi, facility shall be to provide domiciliary care and other related services for eligible veterans in the most cost efficient manner."

**Effective July 1, 2000, the Legislature gave VAB (rather than the nursing home management company) sole responsibility for operating the state veterans' home in Collins.**

The VAB Executive Director stated that he appealed to the Legislature to allow VAB to run the Collins home because of numerous complaints the board had received regarding the quality of care of the Collins home. He stated that the board had received complaints from both residents and family members. He believed that VAB could operate the home more efficiently while also providing better care in the process. However, PEER has not found evidence that would indicate that VAB has operated the home more efficiently, as described below.

**The nine percent increase in costs per resident day for the Collins home during FY 2001 indicates that VAB did not fulfill its goal to operate the home more efficiently than did the private management company in FY 2000.**

VAB costs per resident per day and costs in total for the Collins home exceeded VAB costs for the other three veterans' homes in FY 2001. Also, the costs for the Collins home increased at a greater rate from FY 2000 to FY 2001 than did the costs for the other three homes.

## Total Costs Allocated by VAB to Each Home

**VAB's cost to operate the Collins home was higher than its costs to operate the other three homes in FY 2001.**

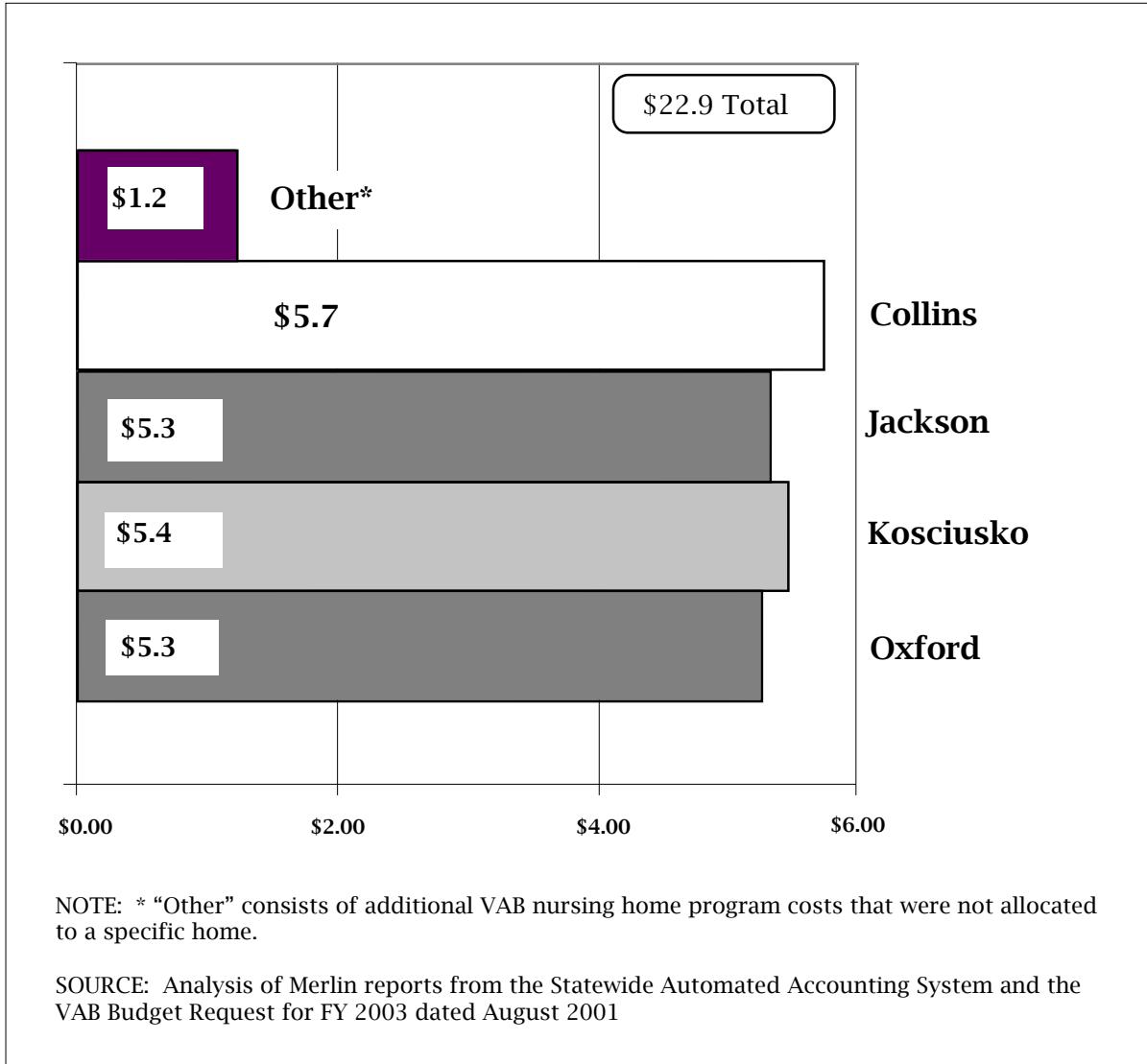
Exhibit 5, page 18, shows that VAB's cost to operate the Collins home was higher than its costs to operate the other three homes in FY 2001. As shown in Exhibit 5, VAB's FY 2001 costs for the Collins home were \$5.7 million. Costs ranged from \$5.3 to \$5.4 million for the other three homes during the year. Also shown below, the budget request submitted to the Legislature in August 2001 showed that VAB had expended \$1.2 million in additional costs for the veterans' home program. (These costs were primarily salaries at the Jackson office and contractual services that were not expended on behalf of any particular home.) As shown in Exhibit 5, the total expenditures for the state veterans' home program were \$22.9 million in FY 2001.

## Cost Per Day Increases at the Collins Veterans' Home

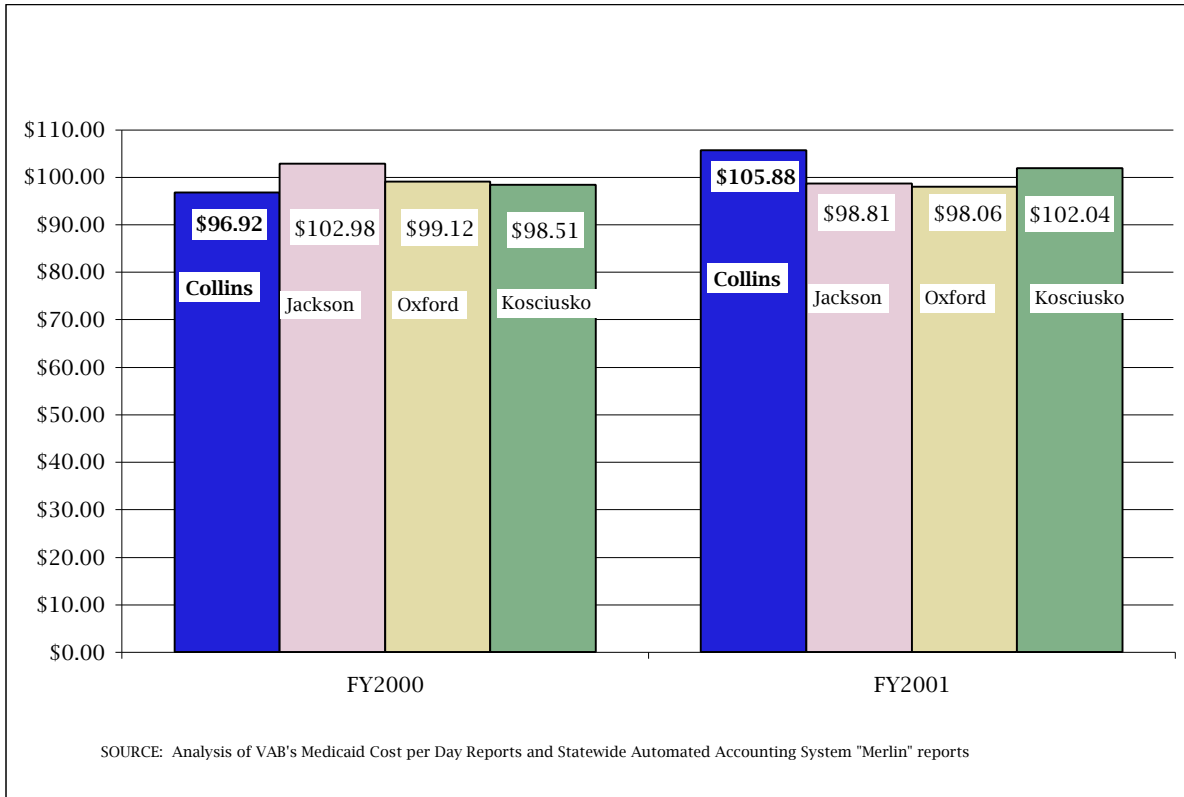
Exhibit 6, page 19, also includes the costs that VAB allocated to the four veterans' homes in FY 2000 and FY 2001. Costs are shown on the basis of the cost for each resident on a daily basis--i.e., costs divided by the sum of the number of residents served every day during the year or cost per resident per day. As shown in Exhibit 6, VAB's cost for the Collins home increased by 9.2% during a period when its costs for the other three homes, run by the management company, decreased or increased slightly from FY 2000 to FY 2001. Exhibit 6 shows that the Collins home's cost per resident per day increased from \$96.92 in FY 2000 to \$105.88 in FY 2001 (a 9.2% increase). On the other hand, costs per resident per day for the Jackson and Oxford homes decreased 4.1% and 1.1%, and the costs per resident per day for the Kosciusko home increased 3.6%.

The costs of the other three homes operated by the management company (Diversified) held steady in part because VAB withheld amounts from payments to Diversified to recover for nursing services paid for but not rendered. (See page 7 for this discussion.) The increased per-resident costs at the Collins home imply that the home would have had a higher level of direct care nursing hours. However, VAB's level of direct nursing care hours provided to the veterans' home at Collins was the next to the lowest of the four homes during the year, as shown in Exhibit 7, page 19.

**Exhibit 5: Total FY 2001 VAB Costs to Operate Veterans' Nursing Homes (in Millions)**



**Exhibit 6: Comparison of FY 2000 and FY 2001 Costs per Resident per Day for VAB Nursing Homes**



**Exhibit 7: Direct Care Nursing Hours Provided at Each VAB Nursing Home in FY 2001**

Kosciusko	3.6
Jackson	3.6
<b>Collins</b>	<b>3.3</b>
Oxford	3.2

SOURCE: VAB staffing pattern and contract rate reports

VAB reported to PEER that for the state fiscal year ended June 2001, the number of direct care staffing hours provided at the state-run Collins veterans' home totaled 3.3. Jackson and Kosciusko home staffing hours totaled 3.6 on average and the Oxford home totaled 3.2 during the period.

**From FY 2000 to FY 2001, costs at the Collins home increased by 9.2%, while costs at the other three homes decreased or increased only slightly. However, the level of direct nursing care hours at the Collins home was the next to the lowest of the four homes during that period.**

To determine factors that affected the costs of the Collins home, PEER reviewed VAB financial information and questioned VAB personnel on increased costs in various categories, such as personnel, natural gas, and non-recurring (start-up) costs. As a result of the review, PEER concluded that VAB was not able to manage the home more efficiently than did the management company the previous year.

Because the home has been operated by VAB for only one year, there is a shortage of historical financial data with which to compare fully the efficiency of VAB's operation of the home to contract operation. If VAB continues to run the home, having additional years of financial data would facilitate the cost comparison, especially if VAB improves its cost accounting system (see discussion on page 22).

## **Preparations for Reporting to the Legislature on VAB's Operation of the Collins Home**

***VAB has not yet conducted costs analysis in preparation for filing a statutorily required report by January 1, 2002, with Senate and House committees specifying whether VAB should continue to operate the Collins home.***

During the 2000 Regular Session, the Legislature amended MISS. CODE ANN. Section 35-1-21, which states that "on or before January 1, 2002, the State Veterans Affairs Board shall file a report with the Chairman of the Senate Veterans and Military Affairs Committee and the Chairman of the House Military Affairs Committee specifying its recommendations on whether to continue to manage the Collins, Mississippi, home or to contract with a nongovernmental entity to operate the home. This subsection shall stand repealed from and after July 1, 2002."

Although VAB knew in the spring of 2000 that it would be required to report on its cost efficiency in operating the Collins home, VAB has not adequately prepared since that time to ensure that its report will be thorough and accurate.

*As of August 2001, VAB had not provided documentation to PEER showing any comparisons of the current Collins home operations with previous management company operations.*

VAB could not provide documentation to PEER showing that it had already performed any analysis comparing current Collins home operations with previous management company operations. According to the VAB Executive Director, the preparation for the report is an ongoing process. He stated that VAB is now in the process of gathering preliminary data.

As of August 22, 2001, the only documented step VAB had taken toward any analysis was to prepare and distribute "satisfaction

surveys" at the Collins home, whereby residents and family members rate the quality of care. The Executive Director stated that VAB plans to:

- review the satisfaction surveys;
- compare Department of Veterans Affairs and Department of Health inspections for each home for the last couple of years;
- track the rate of VAB staffing turnover versus the management company's rate of staffing turnover;
- compare the costs of running each home;
- conduct a public hearing where residents and family members can voice their opinions and concerns; and,
- receive bids from other contractors to operate the Collins home and compare these bids to VAB's cost of running the home.

**According to the Executive Director, the Veterans Affairs Board plans to decide at its October 2001 meeting whether it should continue to operate the Collins home without a management company.**

VAB plans to address this last step when it receives proposals for operating the Collins home on September 24, 2001. VAB issued a request for proposals for these bids on July 16, 2001. According to the Executive Director, the board plans to decide at the October 2001 Board Meeting whether VAB should continue to operate the Collins home without a management company.

VAB is not currently prepared to make a complete and accurate cost comparison because it has not established a sufficient accounting system for veterans' home costs and because it has not established an economy and efficiency study of the Collins home, as discussed below.

*VAB did not establish accounting system codes to capture costs for FY 2001 in a manner that would allow a complete and consistent comparison to costs incurred by the management company in FY 2000.*

Prior to VAB's takeover of the operation of the Collins veterans' home on July 1, 2000, the management company had accounted for detailed costs of the Collins home in the same way that it currently accounts for the costs of the Jackson, Oxford, and Kosciusko homes. The accounting reports of the homes managed by Diversified include, but are not limited to:

- expenditures by department, such as nursing, dietary, social services, housekeeping, laundry, maintenance, and administration;
- expenditures by type, such as salaries and wages, fringe benefits, supplies, contracted services and consultants, repairs, and utilities; and,
- expenditures by type for each department.



Expenditures presented in this manner, especially by type for each department, can help management in controlling costs by pinpointing the source or area/department of origin of cost increases.

VAB accounts for the Collins home expenditures through use of the Statewide Automated Accounting System, which collects costs by major and minor object of expenditure. While collecting cost information in this manner gives detailed information about costs by type (through minor objects of expenditure), it does not isolate the costs to certain areas of operation. For instance, VAB incurred administrative and/or management costs of the Collins home prior to its takeover by the state. When VAB merged these previous administrative costs with the costs of direct operation of the home in FY 2001, the previous administrative costs were merged and hidden in the overall costs of the home. Therefore it is more difficult to determine how non-administrative costs--for instance, nursing--changed from FY 2000 to FY 2001, and therefore it is more difficult to determine whether VAB has improved or decreased the efficiency of the home during its first year of operating the home. IF VAB had coded its various types of salaries into separate departments or activities--e.g., administrative versus nursing versus housekeeping versus maintenance--VAB would have better information with which to monitor and report on its cost efficiency.

**When VAB took over operation of the Collins home, it did not use the capability offered through SAAS to collect costs by activity (e.g., nursing, housekeeping, administration).**

Fortunately, the Statewide Automated Accounting System is configured to allow state agencies to isolate and collect costs by department or area, through what is known as activity codes. Unfortunately, when VAB took over operation of the Collins home, it did not use the capability offered through SAAS by developing activity codes to collect costs in the various departments.

Although VAB was legislatively mandated to operate the home "in the most cost efficient manner," it did not ensure that it had the means to control or understand its cost efficiency through its method of accounting.

*VAB has not conducted an economy and efficiency study (using existing resources) to determine the "most efficient organization and operation" of the veterans' homes for comparison with bids to be received in the current management company contract bidding process.*

In the May 2000 report, PEER recommended that VAB diligently review management company costs in order to ensure that the company is delivering quality services to VAB as efficiently and economically as possible. In implementing this step, PEER recommended that, prior to consideration of a new management company contract, VAB should use existing resources to conduct an economy and efficiency study to determine the most efficient organization and operation of the veterans' homes.

An economy and efficiency study would include:

- reviewing the staffing of the homes to determine the optimum number of staff to achieve direct care goals;

- reviewing the cost of staff that are ancillary to the direct care process, such as maintenance staff and administrative staff;
- reviewing whether contracting for workers in areas such as maintenance and groundskeeping would be more cost beneficial than hiring those workers as state employees; and,
- reviewing trends in various types of expenses by department.

VAB has not conducted such a study. PEER requested that VAB provide documentation to PEER showing any preparations for its report to the Legislature on its efficiency in running the Collins veterans' home. VAB could not provide evidence of this to PEER and did not indicate that it had studied its trends in costs and compared them to the costs of the management company in the previous year.

Because VAB did not assign anyone to be in charge of monitoring costs, it has lost an opportunity to provide valuable information to the Legislature and to understand whether the home has operated in "the most cost efficient manner" as mandated by state law.

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## Recommendations

### Operating the Collins Home

1. The Legislature should amend MISS. CODE ANN. Section 35-1-21 (4) to allow VAB to contract out the running of the Collins home by a private company if it is found that the company can do so more efficiently than VAB.
2. In performing its legislatively required cost-efficiency review for the legislative committees in January 2002, VAB should study the various categories (e.g., minor object codes for budgeting purposes) of expenditures of the Collins home both before and after its operation by VAB to determine areas of efficiency and inefficiency and resulting prospects for improvement.
3. In determining whether VAB should continue to operate the Collins home directly or through a management company, VAB should review bids received for private operation and compare them to state costs of operating the home in an efficient manner, as determined in Recommendation 2.

### Controlling Costs

4. VAB should specifically review its non-nursing staffing to determine where it may achieve efficiencies, especially at the VAB offices, and determine:
  - where state employee duties overlap with duties already provided by the nursing home management company staff;
  - where VAB may include state employee duties within the management company contract so that they can be contracted out to the lowest and best bidder--e.g., landscaping and building maintenance services, accounting for resident personal funds, contracting with medical service providers.

VAB should calculate the cost of these duties at the state agency level so that it can determine if bids to provide these services are competitive. In order to determine this, VAB can require the bidders for management company services to bid separately for these items but as part of the overall contract.

Regarding services currently provided by state employees that VAB may choose to contract out in the future, VAB should ensure that one of its employees monitors the

management company's performance of these services, as well as fulfillment of other terms of the contract.

5. VAB should closely review contract provisions of all future management company contracts to ensure that they are most cost-beneficial to VAB. For example, in order to ensure that nursing home management company staff use building utilities efficiently, VAB should require that the management company pay for utilities--i.e., electricity, gas, water and sewerage--at the veterans' homes as part of its contract.
6. If VAB continues to operate the Collins home, it should set up its coding of accounts to capture expenditures by function or activity (e.g., housekeeping versus nursing versus administrative costs) in the state accounting system. VAB should set up these codes for the purpose of monitoring its costs more closely and make efficiency comparisons with homes operated by private companies. To facilitate cost comparisons, VAB should also require that VAB nursing home contractors compile financial statements using the same fiscal year as the state and provide them to VAB in computerized format to facilitate spreadsheet analysis.

### **Maximizing Revenues**

7. To reduce dependence on state general funds, VAB should continue to review its resident fee structure and increase resident fees when feasible and as needed to cover veterans' home costs, especially when the average income of residents is sufficient to withstand increased fees.
8. VAB should also periodically reassess the potential for other non-state funding sources, including Medicare Part A and B and Medicaid.

### **Management of Veterans' Homes**

9. VAB should determine the amount of direct nursing care hours needed for its homes and then negotiate contracts for which VAB will only pay for direct nursing services rendered and for which VAB will impose a penalty for failure to meet required levels of care.
10. In the event that VAB determines that it will allow Diversified to end its nursing home management contract prior to June 30, 2002, VAB should require Diversified Health Services to fulfill its agreement to reimburse VAB all amounts for past nursing services not provided (\$367,174 plus the remainder of the \$8,826.96 monthly payments due through June 2002). Prior to or upon the date of the termination of the contract, Diversified should pay VAB the full amount of all future payments due.

11. VAB should not take over operations of the Jackson, Oxford, and Kosciusko homes (i.e., directly operate the homes instead of contracting their operation to a nursing home management company), at least until such time as financial data indicates that VAB can operate the Collins home more efficiently than the management company has operated the other three homes.

# Agency Response

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September 21, 2001

### State Veterans Affairs Board

PEER Committee  
Post Office Box 1204  
Jackson, Mississippi 39215-1204

RE: A Review of the Veterans Affairs Board's Funding of State Veterans' Homes

Dear Committee Members:

The State Veterans Affairs Board (VAB) appreciates and commends your staff for the diligence and professionalism exhibited during this review. We are most appreciative for the opportunity to provide a response to your recommendations.

#### **FOLLOW-UP CONCLUSION**

1. As noted in your report, the State Veterans Homes were established to be self-supporting and were, in fact, self-supporting through FY 1998. However, upon VAB's determination that it could not provide adequate care for residents of the State Veterans Homes with the then State Health Department's minimum staffing ratio (2.33 hours per resident per day), VAB increased staffing ratio requirements to 2.77 hours per resident per day. Please note that VAB increased residents fees by \$9.00 per day (\$1,971,000 with 100% occupancy) from FY 1996 - FY 1998.

Upon receipt of an additional \$516,863 in General Funds for operation of the State Veterans Homes in FY 1999, the VAB increased the staffing ratio to 3.04 hours per resident per day. VAB's FY 1999 and FY 2000 General Fund appropriations, including a deficit appropriation for use in FY 1999 and FY 2000, totaled \$5,278,619 and allowed VAB to increase the staffing ratio to 3.74 hours per resident per day.

It is notable that, during FY 2000, the State Health Department established a minimum nursing staff ratio of 2.80 hours for a nursing facility and 5.20 hours for Alzheimer's/Dementia Care Units. The State Veterans Homes each have 100 beds devoted

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to nursing care and 50 beds devoted essentially to Alzheimer's/Dementia care. Application of the minimum State Health Department staffing ratio requirements results in an overall 3.60 minimum staffing ratio for the State Veterans Homes.

Since approximately 97% of State Veterans Home residents require nursing home care for conditions that are not resultant from military service, the only distinguishing characteristic, from other disabled Mississippians needing nursing home care, is that these individuals served on active duty with the U. S. Armed Forces. And, with the vast majority of residents having income and assets at levels such that they would qualify for Medicaid, it is clear that many, were it not for the State Veterans Homes, many would be on Medicaid. With the FY 2001 State Medicaid match being 21.93%, it is clear that the effective 8.8% match for the State Veterans Homes represented a significant saving of State dollars.

2. VAB continues to examine the ratio of non-nursing staff in the State Veterans Homes as compared to that of comparably sized nursing homes in the State. During its examinations, VAB notes that the 13 nursing homes, used by PEER for comparison, are all "for-profit" with eight (8) being stand-alone-facilities.

The non-nursing staffing ratio, at December 31, 2000, at Golden Age, Inc. (180 beds) in Greenwood and the Calhoun Health Services Nursing Home (120 beds) in Calhoun City, both not-for-profit nursing homes, was 41.1 and 30.8 per 100 residents respectively for full-time employees and 14.4 and 3.3 respectively for part-time employees. The ratio, including administrative office staff, for the State Veterans Homes was 38.3 and 8.5 respectively.

VAB has received, verbally from Beverly and in writing from CareCorps, information relative to corporate headquarters who, like VAB's administrative staff, should be included in any non-nursing staff ratio calculations. In addition, VAB has attempted to obtain non-nursing staffing data, at December 31, 2000, for the four (4) Beverly and one (1) CareCorps homes, that were included in PEER's comparison, so that it can compare those non-nursing staffing ratios to that of the State Veterans Homes.

3. VAB amended its contract with the management company such that the company's efforts to provide contractually mandated staffing ratios could be considered in determining whether deductions were in order. This was done, partially, due to the original contract language which allowed the contractor to terminate the contract based on VAB's withholding of funds. However, in view of the contractor going out of the nursing home business on or before scheduled contract termination, VAB will review and adjust this policy as appropriate.
4. In regards to VAB's request for \$4.9 million in State funding for the State Veterans Homes program in FY 2003, please note that VAB requested \$3.8 million for FY 2000; \$3.9 million

for FY 2001; and \$4.0 million for FY 2002. Of the \$0.9 million increase above the FY 2002 request, \$808,740 is VAB's estimated increase (based on anticipated low bid) to contractor for operation of the Jackson, Kosciusko, and Oxford Homes.

Bids are to be opened on September 24, 2001, and VAB anticipates an increase of \$364,886 in VA per diem. Once new VA per diem rate and bids are known, VAB will modify its request accordingly.

### **The Veterans Affairs Board's Management of Collins Veterans Home Costs**

VAB feels that any analysis that concentrates solely on "costs" as a determination of efficiency would ignore the most essential element in an operation such as the State Veterans Homes or any nursing home - **quality of care**. VAB will, in making its statutorily required recommendation on or before January 1, 2002, base that recommendation on costs, VA and State Health Department Surveys, Resident Satisfaction Surveys, Employee Retention, Complaints, etc. These elements taken together, VAB feels, will provide a much better evaluation of the Home's operating efficiency than relying exclusively on costs.

### **A nine percent increase in costs per resident day for Collins home during FY 2001 indicates that VAB did not fulfill its goal to operate the home more efficiently than did the private management company in FY 2000.**

As stated above, VAB feels that a determination of operating efficiency must include elements other than costs.

1. First and foremost, one must realize that factors such as differing wage rates, utility costs, contractual services costs, etc. make it highly unlikely that operating costs for the Homes will be the same. Therefore, for any comparative analysis of operating costs from Home to Home, adjustments must be made to account for the different factors that account for costs.

VAB feels that, at minimum, some analysis of cost increases at the Collins Home and earnings/losses, including anticipated profits (nominally 8% based on prior experience with management companies), at the other Homes must be factored in especially since VAB feels that bidders will take this into consideration when formulating their bids.

- A. Expenditures for the Collins Home increased by \$432,961 for FY 2001 over FY 2000 (\$5,719,760 - \$5,286,799). The four objects with the greatest increases were gas (\$101,169), pool nursing (\$178,712), Drugs & Chem Med & Lab Use (\$103,287), and Food (\$86,089).



- B. Expenditures for the Jackson Home decreased by \$213,536 for FY 2001 over FY 2000 (\$5,315,000 - \$5,546,536) with VAB paying \$4,268,677 to the management company during FY 2001. Adjusting the amount paid to the management company by adding the management company's reported loss (\$311,188) and a nominal 8% profit (\$366,389) results in an adjustment of \$677,577 to the FY 2001 expenditure for a total adjusted expenditure of \$5,992,577 (\$5,315,000 + \$677,577).
- C. Expenditures for the Kosciusko Home increased by \$178,276 for FY 2001 over FY 2000 (\$5,442,940 - \$5,264,664) with VAB paying \$4,232,274 to the management company during FY 2001. Management company reported a profit of \$5,473 hence an additional \$333,109 (to reach the 8% nominal profit level) must be added to the FY 2001 expenditure for a total adjusted expenditure of \$5,776,049 (\$5,442,940 + \$333,109).
- D. Expenditures for the Oxford Home decreased by \$45,700 for FY 2001 over FY 2000 (\$5,263,964 - \$5,309,664) with VAB paying \$4,309,331 to the management company during FY 2001. Adjusting the amount paid to the management company by adding the management company's reported loss (\$125,036) and a nominal 8% profit (\$354,749) results in an adjustment of \$479,785 to the FY 2001 expenditure for a total adjusted expenditure of \$5,743,749 (\$5,263,964 + \$479,785).

The following chart summarizes this adjusted comparative analysis of the FY 2001 Homes' operating costs:

<u>HOME</u>	<u>FY 2001 EXPENDITURE</u>	<u>FY 2000 EXPENDITURE</u>	<u>CHANGE</u>	<u>FY 2001 CARE DAYS</u>	<u>FY 2001 PER DAY COST</u>
Collins	\$5,719,760.00	\$5,286,799.00	8.2%	54,035	\$105.85
Jackson	\$5,992,577.00	\$5,546,536.00	8.0%	53,793	\$111.40
Kosciusko	\$5,776,049.00	\$5,264,664.00	9.7%	53,340	\$108.29
Oxford	\$5,743,749.00	\$5,309,664.00	8.2%	54,254	\$105.87

2. As noted in 1. A. above, the increased per resident costs at the Collins Home were primarily attributable to increases in the cost of gas, pool nursing, Drugs & Chem Med & Lab Use, and food. In respect to the direct care hours, please note that appropriations language in regards to "...projected annual cost to fully fund all appropriated positions..." along with an apparent dearth of Licensed Practical Nurses (LPNs) in the Collins area, the low starting salary for LPNs (especially with no increase for FY 2002), the excessive cost for LPNs through temporary agencies (\$26.00 per hour as compared to a total cost of approximately

\$13.50 per hour for an LPN State employee), and the in general “wait and see” attitude toward the Collins Home as a desirable work site were major contributing factors in the increase in the cost for pool nursing.

It should be noted that, while the increase in the expenditure for pool labor at the Collins Home was \$178,712 with virtually no change in the nursing hour ratio (3.28 - 3.29), please note, as a comparison, that the cost for pool nursing increased by \$353,122 at the Jackson Home with minimal change in the nursing hour ratio (3.52 - 3.59). In fact, the only home to record a nursing hour ratio increase (Kosciusko decreased) greater than .07 was Oxford with a .25 increase (2.98 - 3.23).

**VAB has not yet conducted costs analysis in preparation for filing a statutorily required report by January 1, 2002, with Senate and House committees specifying whether VAB should continue to operate the Collins Home.**

1. While VAB now has overall FY 2001 cost data for comparison with overall FY 2000 cost data for operation of the Collins Home, VAB feels that any recommendation that it makes should also include as much cost data as possible from FY 2002 as well as analysis of other operations elements. These elements will include, but not be limited to, inspection/survey reports, satisfaction surveys, employee retention, and bids.
2. VAB uses SAAS, however, due to the limited time from approval to operate the Collins Home (April 1, 2000) to commencement of operations (July 1, 2000), VAB did not have the capability, within existing resources, to establish accounting codes such that all minor object codes could be captured. It should be noted that SAAS does capture expenditures by major object codes (e.g. electricity, gas, food for persons) which provides enough data for a consistent overall FY 2001 to FY 2000 cost comparison.

As noted by PEER, the FY 2001 operating expenditure at the Collins Home increased by 8.2% over FY 2000. This increase is in line with that, after adjusting for management company's reported profits/losses (including a nominal 8% profit margin) of the Jackson (8.0%), Kosciusko (9.7%), and Oxford (8.2%) Homes.

As discussed earlier, VAB's economy and efficiency study, using existing resources, is ongoing with a goal of being ready for a recommendation to the Senate and House committees not later than December 2001.

## RESPONSE TO PEER RECOMMENDATIONS

- 1. The Legislature should amend the law to allow VAB to contract out the running of the Collins home by a private company if it is found that the company can do so more efficiently than VAB.**

The law directing VAB to operate the Collins Home specified a two (2) year operation with the legislature to act on VAB's recommendation, which is to be submitted not later than January 1, 2002, as to operation of the State Veterans Homes from and after July 2, 2002. In preparing for any decision that the legislature may make, the VAB issued a Request for Proposals (RFP), on July 16, 2001, seeking proposals for operation/management of the State Veterans Homes beginning July 1, 2002. Proposals, including costs, are due and will be opened on September 26, 2001.

- 2. In performing its legislatively required cost-efficiency review for the legislative committees in January 2002, VAB should study the various categories (e.g., minor object codes for budgeting purposes) of expenditures of the Collins Home both before and after its operation by VAB to determine areas of efficiency and inefficiency and resulting prospects for improvement.**

Since VAB did not, within existing resources, have the capability, from its approval to operate the Collins Home through present, to establish minor object accounting codes to the extent desired, it is apparent that VAB must rely on its studies of expenditure accounting codes that are available to determine overall areas of efficiency and inefficiency and resulting prospects for improvement.

While this is not as definitive as would be with minor object codes, VAB feels that this is more than adequate for purposes of the legislatively mandated recommendation. VAB has a goal of fully establishing minor object accounting codes by July 1, 2002.

- 3. In determining whether VAB should continue to operate the Collins home directly or through a management company, VAB should review bids received for private operation and compare them to state costs of operating the home in an efficient manner, as determined in Recommendation 2.**

VAB's schedule for release of its RFP for operation/management of the State Veterans Homes from and after July 1, 2002 was designed to ensure that bid data would be available for its

decision process relative to the legislatively required recommendation on operation of the State Veterans Homes.

**4. VAB should specifically review its non-nursing staffing to determine where it may achieve efficiencies, especially at the VAB offices, and determine:**

- where state employee duties overlap with duties already provided by the nursing home management company staff;
- where VAB may include state employee duties within the management company contract so that they can be bid out to the lowest and best bidder—e.g., landscaping and building maintenance services, accounting for resident personal funds, contracting with medical service providers.

VAB should calculate the cost of these duties at the state agency level so that it can determine if bids to provide these services are competitive. In order to determine this, VAB can require bidders for management company services to bid separately for these items but as part of the overall contract.

Regarding services currently provided by state employees that VAB may choose to contract out in the future, VAB should ensure that one of its employees monitors the management company's performance of these services, as well as fulfillment of other terms of the contract.

VAB continues to review its non-nursing staff in an effort to determine where it may achieve efficiencies. The consolidation of some functions, such as billing and purchasing, to VAB's administrative offices, vice duplicating those functions in their entirety at each of the Homes, was expressly for the purpose of keeping non-nursing staffing as low as possible.

In the past when VAB has, either through proposals or bids, compared the cost for providing services being provided by State employees, VAB has determined that the cost, of having those services provided within the management contract or under separate contract, far exceeded that of providing the service with State employees (e.g. VAB assigns, as part of the duties of the position, accounting for resident personal funds to an Administrative Assistant while management companies typically quote a cost of \$1.00 per resident per day, which would have averaged \$53,856 for each of the State Veterans Homes for FY 2001, for this service).

As a comparison, please note that:

- A. the State of Alabama contracts out all services and only has two (2) State employees in

each of its three (3) 150 bed State Veterans Homes. There projected average daily cost, from and after October 1, 2001, for providing care is \$124.50 (an 8.7% increase above 2000);

B. the State of Tennessee contracts for corporate support and the administrator for each of its two (2), 120 bed each State Veterans Homes, while the remaining employees are employed by its "Home Board" but have State benefits, current daily costs range from \$141.75 to \$195.60;

C. the State of Louisiana operates its 156 bed State Veterans Home in Monroe with State employees and has a current average cost of \$107.78;

D. the projected FY 2002 average daily cost for the Mississippi Homes is \$109.50.

VAB will periodically compare costs of providing services utilizing State employees with those for providing services through contracts to ensure that operating costs are kept to a minimum.

- 5. VAB should closely review contract provisions of all future management company contracts to ensure that they are most cost-beneficial to VAB. For example, in order to ensure that nursing home management company staff use building utilities efficiently, VAB should require that the management company pay for utilities—i.e., electricity, gas, water and sewerage—at the nursing homes as part of its contract.**

These items were removed from the contract at the time the Collins, Kosciusko, and Oxford Homes came online (effective July 1, 1998 for the Jackson Home) as a cost cutting measure. Management companies typically mark these costs up by 8% or more which resulted in increased costs to the VAB.

- 6. If VAB continues to operate the Collins home, it should set up its coding of accounts to capture expenditures by function or activity (e.g., housekeeping versus nursing versus administrative costs) in the state accounting system. VAB should set up these codes for the purpose of monitoring its costs more closely and make efficiency comparisons with homes operated by private companies. To facilitate cost comparisons, VAB should also require that VAB nursing home contractors compile financial statements using the same fiscal year as the state and provide them to VAB in computerized format to facilitate spreadsheet analysis.**

As noted earlier, VAB's goal is to have a much more comprehensive system

of coding accounts in place by July 1, 2002. VAB will continue to compare its Homes' operating costs to, both, those operated by private companies and regional State Veterans Homes.

All future management contracts will require that the management company compile financial statements using the same fiscal year as the State and that they be provided to VAB in computerized format.

**7. To reduce dependence on state general funds, VAB should continue to review its resident fee structure and increase resident fees when feasible and as needed to cover nursing home costs, especially when the average income of residents is sufficient to withstand increased fees.**

VAB has already approved increases of \$1.00 per resident per day effective December 31, 2001 and December 31, 2002. These increases are projected to be essentially equal to the increases in veterans' non service-connected pension rates that will be effective December 1<sup>st</sup> in those years. VAB will continue monitoring residents' income and increase resident fees accordingly.

**8. VAB should also periodically reassess the potential for other non-state funding sources, including Medicare Part A and B and Medicaid.**

VAB will continue to assess the potential for other non-State funding sources, including but not limited to Medicare Part A and B and Medicaid.

**9. VAB should determine the amount of direct nursing care hours needed for its homes and then negotiate contracts for which VAB will only pay for direct nursing services rendered and for which VAB will impose a penalty for failure to meet required levels of care.**

State Health Department minimum direct nursing care hour requirements, when applied to the State Veterans Homes, results in a minimum requirement of 3.60 hours per resident per 24-hour period. VAB's current RFP contains the following language:

“The contractor will provide (on average) 3.60, direct nursing care, per resident per day (or, if higher, a staffing ratio based on a staffing methodology that applies case mix [e.g. RUGS III]).....

If contractor fails to meet required staffing levels....SVAB may deduct....an amount, not to exceed, the payroll expense not incurred by contractor in providing the staffing levels.”

10. In the event that VAB determines that it will allow Diversified to end its nursing home management contract prior to June 30, 2002, VAB should require Diversified Health Services to fulfill its agreement to reimburse VAB all amounts for past services not provided (\$350,000 plus the remainder of the \$8,826.96 monthly payments due through June 2002). Prior to or upon the date of the termination of the contract, Diversified should pay VAB the full amount of all future payments due.

Per court settlement agreement in Kentucky, Diversified Health Services must cease all nursing home operations not later than June 28, 2002. VAB will, in accordance with terms of its contract with Diversified, deduct from final payment to Diversified, or as otherwise mutually agreed, all amounts due.

**11. VAB should not take over operations of the Jackson, Oxford and Kosciusko homes (i.e., directly operate the homes instead of contracting their operation to a nursing home management company), at least until such time as financial data indicates that VAB can operate the Collins home more efficiently than the management company has operated the other three homes.**

On or before January 1, 2002, VAB will make its legislatively required recommendation to the Senate Veterans and Military Affairs Committee and the House Military Affairs Committee. That recommendation will be based on quality of care as well as comparative cost data. VAB has taken steps to ensure that operation of the Homes will not be interrupted by the legislature's decision as to how they shall be operated.

### CONCLUSION

VAB feels strongly that it has consistently striven to provide the highest possible quality of care at the State Veterans Homes while seeking to keep costs, especially in terms of State funds, as low as possible. VAB will continue to look for innovative ways to accomplish its mission of taking care of Mississippi's disabled veterans through utilization of non-State fund revenues as much as possible.

Respectfully,

  
M. Jo Leslie  
Chairperson

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