OFFICE OF THE AUDITOR GENERAL
STATE OF ARIZONA

Arizona Department of Veterans' Services—
Veteran Home

REPORT HIGHLIGHTS
PERFORMANCE AUDIT

Our Conclusion

The Arizona Department of Veterans' Services (Department) operates a nursing home for Arizona veterans and their spouses. Although the Veteran Home (Home) is supposed to be self-sustaining, between fiscal years 2008 and 2010, the Home operated at a loss. With improvements in management, the Home is currently self-sustaining, although financial risks remain.

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Department operates nursing home for veterans

The Department operates a 200-bed nursing home in Phoenix for Arizona veterans, their spouses, and parents whose children died while serving in the armed forces of the United States. Most residents are male, 75 years of age or older, and are not expected to be discharged from the Home. As of June 29, 2011, 78 percent of the Home's beds were filled.

Source: Photo courtesy of the Arizona Department of Veterans' Services.

Additional steps needed to ensure self-sufficiency of veterans' homes

Home not self-sustaining in fiscal years 2008 through 2010—According to Arizona Revised Statutes §41-603.01, the Home should be self-sustaining, but it operated at a loss between fiscal years 2008 and 2010 and received State General Fund and Veterans' Donations Fund subsidies to support its operations. Two main factors contributed to the need for these subsidies:

- The Department's former director mismanaged the Home's operating funds.
- The Home had poor quality of care. In 2007 through 2009, both the U.S. Department of Health and Human Services Centers for Medicare and Medicaid Services (CMS) and the U.S. Department of Veterans Affairs (VA) found the Home to be in noncompliance with many quality-of-care regulations. Because of the noncompliance, the CMS fined the Department $10,000 and denied payment for new admissions for several weeks. The VA also suspended the placement of veterans in the Home for several months.

As a result of mismanaged resources and poor resident care, the Home's occupancy decreased from 94 percent in fiscal year 2007 to 75 percent in fiscal year 2009. Further, the Home's operating revenues decreased by $1.3 million from fiscal years 2008 to 2009.

Department has taken steps to improve Home's financial condition—Since then, the Department has endeavored to improve the Home's financial condition. This included increasing the Home's average daily occupancy to 87 percent in the first three quarters of fiscal year 2011, which is slightly below the break-even census of 177 residents.

Change in Proportions of Residents with Highest and Lowest Payment Rates

Type	Daily Payment Rate for September 2010	Percent of Residents July 2009	Percent of Residents September 2010
VA service-connected[1]	$316	7.3%	21.4%
Medicare	374	2.0	6.1
Medicaid	157	73.5	56.8

1 Monies received from the VA for certain residents who have disabilities caused or aggravated by their active military service.

The Department has also developed a more balanced payer mix. As illustrated in the table, Medicaid pays the least and Medicare pays the most each day. According to a healthcare financing expert, a nursing home's optimal payer mix has 60 percent or less Medicaid residents while maximizing its Medicare population. As of September 2010, the Home had made significant strides in reaching this optimal mix.

The Home has also improved its quality of care by complying with federal regulations. For example, in 2009, the VA found just 15 instances of noncompliance as compared to 40 instances in 2008.

Finally, the Home has reduced its operating expenditures from about $17.7 million in fiscal year 2008 to nearly $15.3 million in fiscal year 2010. According to a department official, the Home was overstaffed with nurses according to VA guidelines. Although the Home continues to exceed the VA's minimum nurse staffing guidelines because of its high percentage of residents who are disabled and require rehabilitation, it has been able to reduce operating costs by reducing nurse staffing levels.

Despite improvements, financial risks remain—In fiscal year 2010, billings for services were not sufficient to completely cover noncapital expenditures. During that time, the Home averaged about $670,000 in cash on hand, enough to cover only 18 days of operations. As of April 2011, the Home had $1.8 million in cash on hand, enough to operate for more than 43 days. The Maricopa Integrated Health System, Maricopa County's Special Health Care District, budgeted for 65 days cash on hand for fiscal year 2011, with a long-term goal of 122 days cash on hand. The Department should continue to increase its cash on hand.

The Department has begun developing fiscal management policies and procedures to monitor quality of service, revenues, expenditures, staffing, and capital expenditures. It should finalize and implement them.

The Department has also reduced its administrative costs from 18.5 percent in fiscal year 2008 to 14.7 percent in fiscal year 2010 and should continue to reduce these costs.

Ensuring self-sufficiency of future veterans' homes—The Department is building another veterans' home with 120 beds in Tucson, which is scheduled to open in October 2011. It also has plans to open homes in the Flagstaff, Yuma, and Kingman regions by 2019 based on the VA's projection of the need for additional homes in Arizona.

Funding to construct the Tucson Veteran Home came from approximately $17 million in VA grant monies and $10 million from the State General Fund. One-time startup and operating costs in fiscal year 2012 will be paid by a $1.9 million appropriation from the State General Fund and $4.7 million from the Home for Veterans' Trust Fund. The Department projects that the Tucson Home will be self-sufficient as early as fiscal year 2013. However, national, state, and Phoenix nursing home data suggests that the occupancy projection may be optimistic. Specifically, nursing home occupancy rates have been declining and were less than 84 percent nationally in 2009 and less than 77 percent in Arizona.

Recommendations

The Department should:

- Ensure that the Phoenix Veteran Home maintains its improved financial condition by finalizing and implementing fiscal management policies and procedures.
- Continue to increase the Home's cash on hand and reduce the Home's administrative and general costs.
- Ensure the self-sufficiency of future veterans' homes by maintaining a high quality of care, maintaining a balanced payer mix, and keeping operating costs and administrative expenditures low.