

An Evaluation

Wisconsin Veterans Homes

Department of Veterans Affairs

2011-2012 Joint Legislative Audit Committee Members

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Janice Mueller
State Auditor

February 9, 2011

Senator Robert Cowles and
Representative Samantha Kerkman, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Cowles and Representative Kerkman:

We have completed an evaluation of the Wisconsin Veterans Homes, as requested by the Joint Legislative Audit Committee. The homes are administered by the Department of Veterans Affairs (DVA). As of December 2009, they provided skilled nursing or assisted living care to a total of 887 veterans and their spouses. In fiscal year (FY) 2008-09, the homes' combined expenditures totaled \$89.7 million. Operating expenditures increased by 64.2 percent during the five-year period we reviewed, largely because Union Grove opened a new skilled nursing facility in September 2006.

We identified significant financial and program management issues at the veterans homes. For example, operating expenditures have exceeded revenues in four of the past five fiscal years, and the homes remain solvent largely because of a one-time Medical Assistance reimbursement rate adjustment of \$20.1 million received in FY 2005-06 for care provided at King. Staffing requirements established by state and federal law have been met, but the homes have relied on overtime and limited-term employees to help address long-term staffing needs. Funding for the Aid to Indigent Veterans program, which assists veterans who cannot afford the full cost of assisted living care, has also increased significantly, and the program operates under policies that have frequently changed and are unclear. In a review of 20 participants' files, we found 4 instances in which eligibility had not been appropriately assessed.

The veterans homes purchased \$17.0 million in goods and services in FY 2008-09. We found numerous violations of state purchasing requirements in the documentation we reviewed, including noncompliance with prescribed procedures, expenditures made outside of statutory and budgetary authority, and inadequate oversight and monitoring. Turnover in key leadership positions has hampered oversight of veterans homes operations, and because of the homes' projected operating deficits in FY 2010-11, which we reported in August 2010, continuing legislative oversight will be important.

We appreciate the courtesy and cooperation extended to us by DVA in completing this evaluation. DVA's response follows the appendices.

Respectfully submitted,

Janice Mueller
State Auditor

JM/PS/ss

Report Highlights ■

Operating expenditures have exceeded revenues in four of the past five fiscal years.

In FY 2008-09, the homes met nurse staffing requirements established by state and federal law.

The number of citations the homes have been issued for violating nursing home regulations is similar to the statewide average.

Revisions to existing policies would both clarify and strengthen eligibility requirements for the Aid to Indigent Veterans program.

Compliance with state purchasing and contracting requirements should be improved.

Inadequate oversight has contributed to significant financial and program management issues.

The Wisconsin Department of Veterans Affairs (DVA) operates the Wisconsin Veterans Home at King, located in Waupaca County, and the Wisconsin Veterans Home at Union Grove, located in Racine County, and provides grants, loans, and a variety of other services to eligible Wisconsin veterans and their families.

As of December 2009, the two veterans homes provided long-term care for 887 eligible veterans and their spouses. The skilled nursing facilities at both veterans homes, which offer 24-hour care, are licensed by the Department of Health Services (DHS). Union Grove also operates three assisted living facilities, which provide limited nursing care. DVA currently plans to complete construction of a third, 72-bed nursing home in Chippewa Falls by November 2012.

In response to concerns raised by the Board of Veterans Affairs, which oversees DVA and promulgates administrative rules to guide its operations, the Joint Legislative Audit Committee directed us to:

- review the homes' admissions policies and the services they offer residents;
- analyze the homes' revenues and expenditures;
- assess staffing levels and compliance with state and federal regulations for nursing staff;
- review administration of the Aid to Indigent Veterans program, which assists eligible veterans who could not otherwise afford assisted living care;

- examine purchasing procedures; and
- assess oversight.

Revenues and Expenditures

The homes are funded primarily with state and federal Medical Assistance payments, resident fees, federal Medicare payments, and payments to veterans provided by the federal Department of Veterans Affairs. Additional revenue from donors supplements some activities and services.

The homes' combined expenditures increased from \$54.6 million in fiscal year (FY) 2004-05 to \$89.7 million in FY 2008-09. Combined expenditures have exceeded revenues in four of the past five fiscal years.

The homes remain solvent largely because of a one-time payment of \$20.1 million in Medical Assistance funds that King received in FY 2005-06 as a reimbursement rate adjustment for care it provided from 2001 through 2005. King maintained yearly surpluses throughout the period we reviewed, but Union Grove had a deficit in each year, which was addressed by the transfer of a total of \$21.2 million from King to Union Grove, as shown in Table 1.

Table 1

Transfers from King to Union Grove (in millions)

Fiscal Year	Revenue Transferred
2004-05	\$ 5.0
2005-06	4.3
2006-07	5.8
2007-08	3.3
2008-09	2.8
Total	\$21.2

The homes had a \$9.5 million operating account balance at the end of FY 2008-09; however, that balance will be fully depleted by FY 2013-14 if deficit spending continues at current levels.

Staffing

Nursing positions account for more than one-half of all permanent positions at the veterans homes. In FY 2008-09, the homes met nurse staffing requirements established by state and federal law, but they relied on overtime and limited-term employees to help them do so. Spending for extra time worked by part-time nursing staff, for overtime worked by full-time nursing staff, and for additional nursing support by contract nursing staff totaled \$3.7 million in FY 2008-09.

King has established two stipend programs for nursing staff in training, but the effectiveness of these programs as aids to retention and recruitment cannot readily be determined because of the small number of participants. Only 57 nursing students participated during the five-year period we reviewed, including 10 who did not complete their training or employment requirements.

Nursing Home Regulations

The veterans homes are subject to routine, unannounced inspections to evaluate resident services, the physical environment, and residents' quality of life. Overall, the number of citations the homes received in response to violations of state or federal rules is similar to the statewide average for comparable facilities.

From 2005 through 2009, the homes made corrections to address 169 citations for violations of federal nursing home rules and 17 citations for violations of state nursing home rules. Union Grove also corrected eight assisted living facility violations, and its efforts to address two other assisted living violations will be verified by state inspectors during a future inspection.

Aid to Indigent Veterans Program

The Aid to Indigent Veterans program provides financial assistance to veterans who cannot afford the full cost of care at Union Grove's assisted living facilities. In FY 2008-09, the program was funded with general purpose revenue (GPR) and segregated funds from the Veterans Trust Fund.

Expenditures were \$303,500 in FY 2008-09, and the program served an average of 23 participants per month.

Although the program was created in June 2005, DVA did not develop formal policies until May 2008, approximately three years after its inception. Additional modifications are needed to clarify asset and divestment policies.

Purchasing and Contracting

The veterans homes purchased \$17.0 million in goods and services during FY 2008-09. More than one-third of this spending was for medical and other supplies.

As shown in Table 2, the veterans homes violated state purchasing requirements for approximately one-third of the transactions we reviewed, or 26 of 79 purchases. Violations included dividing large purchases into separate, smaller purchases that do not require bid solicitation; failing to use required bidding procedures that are intended to encourage competitive prices for higher-cost purchases; making inadequate bid solicitations; and failing to rebid contracts in a timely manner.

For example, Union Grove used flawed procurement procedures when selecting a vendor for electrical work that should have been awarded through a formal bidding process. In addition, two vendors were excluded from consideration based on service requirements that were not met by the chosen vendor.

Table 2

Violations of State Purchasing Requirements FY 2008-09 and FY 2009-10

	Number of Purchases Reviewed	Percentage with Violations
King	31	12.9%
Union Grove	48	45.8
Total	79	32.9

Future Considerations

Ambiguity in DVA policies and inadequate oversight have led to significant financial and program management issues at the veterans homes, including violations of state purchasing requirements and expenditures made outside of statutory and budgetary authority. For example, the Legislature appropriated \$50,000 for nursing education at Fox Valley Technical College, which King instead used to make unrestricted donations for the benefit of the school.

In addition, turnover among key leadership positions has hampered oversight of veterans home operations and raised concerns about stability and continuity in agency leadership.

DVA has also reported since at least 2006 that it plans to develop a comprehensive long-term financial plan for the veterans homes, but it has not done so to date. The homes would benefit from additional central office oversight in coordinating policies and service delivery.

Recommendations

We include recommendations for DVA to:

- ☑ annually analyze overtime costs and the cost of hiring additional nursing staff to meet state and federal nurse staffing requirements, and report to the Joint Legislative Audit Committee by July 1, 2011, on its analysis of FY 2009-10 overtime costs ([p. 42](#));
- ☑ with the Board of Veterans Affairs, determine whether to continue operating two nursing education stipend programs and report to the Joint Legislative Audit Committee by July 1, 2011, on the decision ([p. 45](#));
- ☑ enhance the usefulness of citation reports it prepares for the Board of Veterans Affairs by developing a standard written format ([p. 53](#));
- ☑ report to the Board of Veterans Affairs by July 1, 2011, on the feasibility of Union Grove's assisted living residents receiving financial support through the Family Care program ([p. 57](#));
- ☑ ensure that each veterans home improves compliance with purchasing requirements, contract monitoring, and invoice review procedures ([p. 69](#)); and
- ☑ report to the Joint Legislative Audit Committee by July 1, 2011, on specific steps it has taken to respond to our recommendations to improve financial and program management at the Wisconsin Veterans Homes ([p. 77](#)).

We also include a recommendation for the Board of Veterans Affairs to:

- ☑ promulgate administrative rules for the Aid to Indigent Veterans program that clearly define asset requirements for resident eligibility, including policies on divestment ([p. 62](#)).

Introduction ■

The Wisconsin Veterans Home at King, which opened in 1887, provides nursing care in four skilled nursing facilities with a combined capacity of 721 beds. The Wisconsin Veterans Home at Union Grove, which opened in 2001, operates three assisted living facilities with a combined capacity of 123 beds, as well as a skilled nursing facility that opened 40 beds to prospective residents in September 2006, 40 beds in February 2007, and 40 beds in May 2008. As shown in Table 3, 887 of the homes' 964 available beds were occupied as of December 31, 2009.

In August 2010, we released a letter report that reviewed DVA's historical rate setting procedures and recommended agency action and legislative oversight to address the homes' continued solvency. This second phase of our comprehensive evaluation also addresses management and operations issues, including staffing, compliance with state and federal nursing home regulations, the Aid to Indigent Veterans program, and purchasing and contracting for goods and services. In completing it, we reviewed state and federal statutes and regulations pertaining to veterans benefits and nursing homes; interviewed DVA staff, veterans home residents, union officials, and representatives of veterans organizations; analyzed the homes' revenues, expenditures, and purchasing records; and reviewed reports prepared by DVA.

Table 3

Veterans Home Facilities
As of December 31, 2009

Residential Hall	Type of Facility	Capacity	Occupancy
King			
Ainsworth Hall ¹	Skilled Nursing	205	198
MacArthur Hall	Skilled Nursing	116	112
Olson Hall	Skilled Nursing	200	188
Stordock Hall	Skilled Nursing	200	182
Total		721	680
Union Grove			
Boland Hall ¹	Skilled Nursing	120	116
Fairchild Hall ¹	Assisted Living	40	26
Gates Hall	Assisted Living	42	31
Shemanske Hall	Assisted Living	41	34
Total		243	207

¹ Includes areas for residents who require memory care services.

Eligibility, Admissions, and Resident Information

Eligibility requirements include Wisconsin residency, care needs the homes are able to provide, and financial disclosure.

Eligibility requirements for admission to the Wisconsin Veterans Homes are established in s. 45.51, Wis. Stats. To qualify for admission, an applicant may be either a wartime or a peacetime veteran and must:

- be a resident of Wisconsin on the date of admission;
- be permanently incapacitated from any substantially gainful occupation because of physical disability or age;
- not have been convicted of a felony or crime of moral turpitude;
- have care needs that the veterans home is able to provide; and

- provide a financial statement, which is used to determine eligibility for the Medical Assistance program and to ensure compliance with s. 45.51(14), Wis. Stats., which requires that assisted living applicants have sufficient income and resources to pay for their care.

DVA staff indicated that the requirement to be a resident on the date of admission has been interpreted liberally, in accordance with s. 45.03(14), Wis. Stats, which requires statutes be “construed as liberally as the language permits in favor of applicants.” As a result, DVA has admitted individuals who resided in Wisconsin on the day of application regardless of their residence the prior day.

Priority in admissions is given first to veterans, followed by spouses of living veterans, surviving spouses, and parents. Exceptions may be made to prevent the separation of a husband and wife and in cases where there is an immediate need for medical care. Under 38 CFR 52.210(d), at least 75.0 percent of residents must be veterans if the facility was constructed or renovated using federal funds; s. 45.51(3)(b), Wis. Stats., further stipulates that surviving spouses and parents may not be admitted unless overall occupancy is below optimal levels determined by the Board of Veterans Affairs, which the Board has set at 95.0 percent for surviving spouses and 92.0 percent for parents. No parents of veterans resided at the homes from FY 2004-05 through FY 2008-09, the period we reviewed.

Admissions Process

Prospective residents are required to document their medical needs, residency, and military service and to provide a financial statement detailing their income sources and assets. Staff at each home review completed applications to determine eligibility.

As shown in Table 4, King approved 72.5 percent of its FY 2008-09 applications for nursing home care and denied 5.0 percent, while Union Grove approved 50.3 percent of its applications for nursing home or assisted living care and denied 5.1 percent. The remaining applications were withdrawn by the applicant or placed on hold by the homes pending medical review or additional documentation, or by the applicant for personal or financial reasons.

Table 4

Application Status at Veterans Homes
FY 2008-09

Category	Number	Percentage of Applications Received
King		
Approved	187	72.5%
Denied	13	5.0
Withdrawn/On Hold ¹	58	22.5
Total Received	258	100.0%
Union Grove		
Approved	88	50.3%
Denied	9	5.1
Withdrawn/On Hold ¹	78	44.6
Total Received	175	100.0%

¹ Applications that were not approved or denied were withdrawn by the applicant or placed on hold pending medical review, additional documentation, or the applicant's need to delay admission for personal or financial reasons.

Union Grove does not record the reasons applications were denied, but it retains denial letters in applicant files. King does record this information, and from FY 2004-05 through FY 2008-09 it denied admission to:

- 68 individuals with care needs for which the home could not provide support;
- 8 individuals who did not meet eligibility requirements; and
- 5 individuals who had committed felonies.

Section 45.51(2), Wis. Stats., specifies that to be eligible for admission a veteran must have care needs that the veterans home is able to provide within the resources allocated for the care of residents of the veterans home, including chronic alcoholism, drug addiction, psychosis, or active tuberculosis. Staff indicated that King's resources allow the admission of veterans who have been diagnosed with alcoholism or psychosis if they have maintained sobriety for at least six months and do not pose a danger to themselves or others at the home. This practice is consistent with the conditions of licensure specified in ch. DHS 132, Wis. Adm. Code, which states that persons who require services that a nursing facility does not provide or make available shall not be admitted.

Occupancy Trends

There has been high demand for skilled nursing care at both homes.

As shown in Table 5, there has been high demand for skilled nursing care at both homes, but the assisted living facilities at Union Grove did not exceed 88.5 percent occupancy during the period we reviewed. All skilled nursing beds at Union Grove were occupied in June 2009, and although King remained near capacity through December of that year, its occupancy has declined slightly over time. Union Grove reported no waiting list for its skilled nursing facility, while King reported a waiting list only for its memory care unit, which in January 2010 included four applicants.

Table 5

Capacity and Occupancy at Veterans Homes

	June 2005		June 2006		June 2007		June 2008		June 2009		December 2009	
	Residents/ Available Beds	Occupancy Rate										
King¹												
Skilled Nursing	719/ 721	99.7%	688/ 721	95.4%	695/ 721	96.4%	688/ 721	95.4%	684/ 721	94.9%	680/ 721	94.3%
Union Grove												
Skilled Nursing	N/A ²		N/A ²		48/ 80	60.0%	108/ 120	90.0%	120/ 120	100.0%	116/ 120	96.7%
Assisted Living	86/ 128	67.2 %	110/ 128	85.9%	108/ 128	84.4%	92/ 104 ³	88.5%	104/ 123 ⁴	84.6%	91/ 123	74.0%

¹ Does not include residents of cottages that are not licensed by DHS and are being phased out by King. In December 2009, there were 2 cottage residents.

² Union Grove’s skilled nursing facility opened in September 2006, with 40 beds. Additional beds were added in phases: there were 80 available nursing home beds in February 2007, and 120 in May 2008.

³ Capacity was temporarily reduced by 24 beds because of building renovations.

⁴ The renovations that temporarily reduced capacity in 2008 permanently reduced capacity by five beds when completed.

Resident Demographics and Levels of Care

Most of the homes’ residents are white male veterans over the age of 80.

As shown in Table 6 and Table 7, most residents at both veterans homes in December 2009 were white male veterans over the age of 80. Compared to the residents at Union Grove, King’s residents encompassed a broader age range and more numerous counties of last residence. These trends were generally consistent from FY 2004-05 through FY 2008-09, although the ages of veterans in the homes increased slightly.

Table 6

Residents of King Veterans Home¹
As of December 31, 2009

Gender	Number	Percentage of Total
Male	515	75.7%
Female	165	24.3
Total	680	100.0%

Ethnicity	Number	Percentage of Total
White	668	98.2%
African American	5	0.7
American Indian/Alaskan Native	5	0.7
Asian/Pacific Island	1	0.2
Hispanic	1	0.2
Total	680	100.0%

Age	Number	Percentage of Total
30-39	2	0.3%
40-49	3	0.4
50-59	22	3.2
60-69	100	14.7
70-79	149	21.9
80-89	337	49.6
90-99	65	9.6
100-109	2	0.3
Total	680	100.0%

Conflict ²	Number	Percentage of Veterans
World War II	269	49.2%
Korea	164	30.0
Vietnam	103	18.8
Peacetime	60	11.0
Afghanistan	2	0.4
Operation Desert Shield/Storm	2	0.4
Berlin	2	0.4

Last County of Residence	Number	Percentage of Total
Waupaca	85	12.5%
Milwaukee	50	7.4
Winnebago	49	7.2
Outagamie	47	6.9
Brown	40	5.9
Portage	40	5.9
Dane	37	5.4
Waushara	22	3.2
Waukesha	21	3.1
Wood	18	2.6
Marathon	16	2.4
Not in Wisconsin ³	15	2.2
Monroe	13	1.9
Lincoln	12	1.8
Oneida	11	1.6
Rock	11	1.6
All Other Counties	193	28.4
Total	680	100.0%

Marital Status	Number	Percentage of Total
Widowed	244	35.9%
Married	169	24.8
Divorced	148	21.8
Single	106	15.6
Separated	13	1.9
Total	680	100.0%

Veteran Status	Number	Percentage of Total
Veteran	547	80.4%
Spouse	133	19.6
Total	680	100.0%

¹ Includes 680 residents in the skilled nursing facilities and excludes 2 residents in the cottages.

² Includes 55 veterans who served in more than one conflict.

³ Applicants meet residency eligibility requirements if they reside in Wisconsin on the day of their application.

Table 7

Residents of Union Grove Veterans Home¹
As of December 31, 2009

Gender	Number	Percentage of Total
Male	179	86.5%
Female	28	13.5
Total	207	100.0%

Ethnicity	Number	Percentage of Total
White	200	96.6%
African American	7	3.4
Total	207	100.0%

Age	Number	Percentage of Total
50-59	6	2.9%
60-69	13	6.3
70-79	36	17.4
80-89	119	57.5
90-99	33	15.9
Total	207	100.0%

Conflict ²	Number	Percentage of Veterans
World War II	122	64.6%
Korea	38	20.1
Vietnam	18	9.5
Peacetime	13	6.9

Last County of Residence	Number	Percentage of Total
Racine	133	64.2%
Milwaukee	22	10.6
Kenosha	14	6.8
Waukesha	9	4.3
Waupaca	8	3.9
Walworth	5	2.4
Winnebago	2	1.0
Not in Wisconsin ³	2	1.0
All Other Counties	12	5.8
Total	207	100.0%

Marital Status	Number	Percentage of Total
Widowed	93	44.9%
Married	52	25.1
Divorced	35	16.9
Single	25	12.1
Separated	2	1.0
Total	207	100.0%

Veteran Status	Number	Percentage of Total
Veteran	189	91.3%
Spouse	18	8.7
Total	207	100.0%

¹ Includes 116 residents in the skilled nursing facility and 91 residents in the assisted living facilities.

² Includes two veterans who served in more than one conflict.

³ Applicants meet residency eligibility requirements if they reside in Wisconsin on the day of their application.

Residents of the skilled nursing facilities are assigned levels of care based on their individual needs:

- residents whose care requires specific, complex interventions are assigned to the intensive skilled nursing level;
- residents whose care needs are less intensive but who still require continuous nursing care are assigned to the skilled nursing care level;
- residents needing general or limited nursing care or non-nursing care under nurse supervision are assigned to one of four levels of intermediate care—intermediate, limited, personal, or residential; and
- residents with terminal illnesses may be assigned to hospice care.

As shown in Table 8, as of December 31, 2009, all of Union Grove’s nursing home residents were receiving either intensive skilled nursing or skilled nursing care, while only 77.4 percent of King’s residents received one of these two levels of care. King’s remaining residents were receiving intermediate, limited, personal, or hospice care. Residents of Union Grove’s assisted living facilities are not included in Table 8 because they are not assigned to those levels of care.

Table 8

Levels of Care at the Skilled Nursing Facilities
As of December 31, 2009

Level of Care	King		Union Grove		Total	
	Number	Percentage of Total	Number	Percentage of Total	Number	Percentage of Total
Intensive Skilled Nursing	35	5.1%	3	2.6%	38	4.8%
Skilled Nursing	491	72.3	113	97.4	604	75.9
Intermediate Care	109	16.0	0	0.0	109	13.7
Limited Care	32	4.7	0	0.0	32	4.0
Personal Care	1	0.1	0	0.0	1	0.1
Hospice	12	1.8	0	0.0	12	1.5
Total	680	100.0%	116	100.0%	796	100.0%

Resident Services

Veterans home residents must be provided certain services under state and federal regulations.

Administrative rules governing nursing homes and assisted living facilities require all such facilities to provide written descriptions of the services included in their daily service rates and those for which there are additional charges. Federal and state regulations also require DVA to offer certain services in order to participate in the Medical Assistance and Medicare programs, to receive per diem payments from the federal Department of Veterans Affairs, and to maintain state licensing. Appendix 1 lists the primary services provided at the skilled nursing and assisted living facilities. While the skilled nursing facilities provide more intensive medical care services, other services such as transportation, housekeeping, food preparation, and dietary planning are available to both nursing home and assisted living residents.

State and federal regulations require the homes to provide an ongoing program of activities designed to meet the interests and the physical, mental, psychological, and social well-being of each resident. In December 2009, both King and Union Grove offered residents five or six activities per day, which staff indicated are scheduled to reflect resident interests and needs. Social activities such as “history group,” “coffee and news,” and “armchair travel” were the most frequently scheduled activities at King, and games such as bingo, trivia, and cards were the most frequently scheduled activities at Union Grove. Appendix 2 shows other scheduled activities for veterans home residents.

Residents of both homes receive the same food, prepared and re-heated in an identical manner.

Federal law requires the homes to provide residents with a nourishing, palatable, well-balanced diet. Since February 2006, all meals other than prepared-to-order breakfasts at Union Grove’s assisted living facilities have been prepared and cooked at King and then rapidly chilled to a safe storage temperature. Food for King residents is kept in coolers on-site, while food for Union Grove residents is transported in refrigerated trucks three days each week. Staff at King and Union Grove prepare individual trays either the day a meal is to be served or the day before, and trays are placed in temperature-controlled carts that heat the food before mealtime. All residents therefore receive the same food, prepared and re-heated in an identical manner. Other than diet specifications, menus are identical at both homes, and food is stored for the same length of time.

When we interviewed members of three resident councils, many expressed dissatisfaction with the homes’ food preparation method and the taste of food provided. However, a survey of 108 residents conducted in 2008 by a private firm found that those who were satisfied with the homes’ food service outnumbered those who were dissatisfied by nearly two to one. The homes therefore plan to continue using the current cook-chill method for food preparation.

Revenues and Expenditures ■

The veterans homes are supported primarily with state and federal funds, including Medical Assistance payments. Additional revenue is collected from those residents who pay for their own care and through gifts and bequests for purposes specified by donors.

Operating Revenues and Expenditures

The veterans homes' operations are funded primarily with program revenue, which includes:

- state and federal Medical Assistance payments;
- payments by some residents at daily private pay rates;
- federal per diem payments for all residents who are veterans (but not for their spouses);
- federal Medicare payments; and
- payments by the federal Department of Veterans Affairs' Service-Connected Disability Program, which in March 2009 began to fund skilled nursing care for veterans who are disabled by an injury or illness during active military duty.

King is not currently certified to receive Medicare payments for resident care.

As shown in Table 9, care for most residents has been funded by the Medical Assistance program. However, in December 2009, 9.7 percent of King residents and 25.0 percent of Union Grove skilled nursing facility residents paid for care with their own funds. The Service-Connected Disability Program funded care for a total of 34 residents, and Medicare funded 9 nursing home residents at Union Grove. King is not currently certified to receive Medicare payments for skilled nursing facility care, services, and supplies because a DVA analysis presented to the Board of Veterans Affairs in February 2010 concluded that the projected costs of becoming certified would exceed the projected reimbursements. Assisted living care is not covered under the Medical Assistance, Medicare, or Service-Connected Disability Program.

Table 9
Primary Funding Sources for Skilled Nursing Care¹
 December 2009

	King		Union Grove	
	Residents	Percentage	Residents	Percentage
Medical Assistance	587	86.3%	71	61.2%
Payments by Residents at Private Pay Rates	66	9.7	29	25.0
Federal Service-Connected Disability Program	27	4.0	7	6.0
Medicare	0 ²	0.0	9	7.8
Total	680	100.0%	116	100.0%

¹ Excludes federal per diem payments, which are provided for all eligible veterans but not for their spouses.

² King is not currently certified to receive Medicare payments.

Expenditures have exceeded revenues in four of the past five years.

Each home's expenditures include staffing costs as well as the costs of supplies and services, utilities, insurance, and fees. As shown in Table 10, the homes' combined operating expenditures increased from \$54.6 million in FY 2004-05 to \$89.7 million in FY 2008-09, largely because of the opening of Union Grove's skilled nursing facility in September 2006. Although expenditures have exceeded revenues in four of the past five years, the homes have remained solvent largely because of carryover funds from a \$20.1 million Medical Assistance payment received by King in FY 2005-06 as a one-time reimbursement rate adjustment for the care it provided from 2001 thorough 2005. Those funds have been used to support the homes' operations in subsequent years.

Table 10

Combined Operating Revenues and Expenditures

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
Revenues					
Medical Assistance	\$23,142,900	\$46,359,300	\$28,544,000	\$33,483,300	\$34,729,100
Payments by Residents	18,941,000	20,229,500	21,420,500	23,318,800	24,412,800
Federal per Diem Payments for Veterans	12,087,200	14,240,100	15,711,800	17,624,600	18,604,200
Medicare	–	127,300	1,716,600	2,207,900	2,893,600
Federal Service-Connected Disability Program ¹	–	–	–	–	354,300
Aid to Indigent Veterans	1,300	89,100	174,900	191,900	303,600
Other	125,500	157,400	159,100	184,300	188,100
Revenue Transfers ²	(744,400)	(936,400)	(1,164,500)	(1,388,100)	(1,407,800)
Total	53,553,500	80,266,300	66,562,400	75,622,700	80,077,900
Expenditures					
Salaries	29,170,000	31,859,300	37,495,000	40,885,300	42,973,500
Fringe Benefits	13,715,300	14,655,700	17,006,200	19,957,900	22,686,900
Supplies and Services	6,068,900	6,753,900	7,722,200	8,168,500	9,394,400
Transfers ³	973,800	153,000	1,462,300	422,100	7,050,800
Utilities	1,954,200	2,530,800	2,386,800	2,782,600	2,809,100
Advertising, Postage, and Fees ⁴	1,906,500	1,460,700	1,677,900	1,858,900	1,761,700
Other ⁵	849,700	1,520,900	2,041,600	2,400,400	3,033,300
Total	54,638,400	58,934,300	69,792,000	76,475,700	89,709,700
Surplus/(Deficit)	\$(1,084,900)	\$21,332,000	\$(3,229,600)	\$ (853,000)	\$(9,631,800)

¹ DVA first began receiving payments through this program in March 2009 to fund skilled nursing care for some disabled veterans.

² DVA records these transfers to the General Fund for certain debt service and capital project costs as revenues on the State's official accounting records.

³ Includes statutorily required lapses to the State's General Fund of \$810,000 in FY 2004-05 and \$81,000 in FY 2005-06, statutorily authorized transfers to the Veterans Trust Fund of \$1.1 million in FY 2006-07 and \$7.0 million in FY 2008-09, and transfers between DVA accounts.

⁴ Includes a nursing home bed assessment fee charged by DHS.

⁵ Includes maintenance, insurance, and staff training.

As shown in Table 11, Union Grove has incurred deficits in each year we reviewed. Although King has maintained annual surpluses, they have declined each year since FY 2005-06.

Table 11

Surpluses/Deficits at King and Union Grove
(in millions)¹

Home	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09
King	\$2.4	\$24.2	\$4.4	\$3.4	\$1.8
Union Grove					
Nursing	\$(0.1)	\$(0.5)	\$(4.8)	\$(2.3)	\$(2.2)
Assisted Living	(2.5)	(2.3)	(1.7)	(1.9)	(2.2)
Subtotal	\$(2.6)	\$(2.8)	\$(6.5)	\$(4.2)	\$(4.4)

¹ Excludes statutorily required lapses to the General Fund of \$810,000 in FY 2004-05 and \$81,000 in FY 2005-06, as well as statutorily authorized transfers from King to the Veterans Trust Fund of \$1.1 million in FY 2006-07 and \$7.0 million in FY 2008-09.

In a five-year period, DVA transferred \$21.2 million from King to address Union Grove's deficits.

As shown in Table 12, \$21.2 million has been transferred from King to Union Grove since FY 2004-05. These transfers were possible largely because of the \$20.1 million one-time Medical Assistance payment King received in FY 2005-06.

Table 12

Transfers from King to Union Grove
(in millions)

Fiscal Year	Revenue Transferred
2004-05	\$ 5.0
2005-06	4.3
2006-07	5.8
2007-08	3.3
2008-09	2.8
Total	\$21.2

DVA believes that recent increases in private pay rates for both skilled nursing and assisted living care residents will help to stabilize Union Grove's financial condition. However, given the level of annual deficits, it is unclear how assisted living operations can become self-sustaining.

The homes' \$9.5 million operating account balance could be fully depleted by FY 2013-14.

At present, DVA plans to continue supporting Union Grove's deficits with the homes' combined \$9.5 million operating account balance, which exists because of the Medical Assistance program rate adjustment reimbursement received in FY 2005-06. However, that balance will be fully depleted by FY 2013-14 if deficits and transfers continue at current levels. In addition, DVA projects that King will begin to operate at a deficit in FY 2010-11. If the combined operating account balance is also used to reduce significant rate increases that have occurred at Union Grove, as some have proposed, that balance will be depleted more rapidly.

Our August 2010 letter on rate setting recommended that DVA report to the Joint Legislative Audit Committee on both the current financial status of the veterans homes and management's plans for achieving the financial solvency required for serving veterans and their spouses effectively over the long term. On January 24, 2011, DVA issued a response that provided little information for legislators and others concerned with the homes' current financial condition or the likelihood of achieving long-term solvency. For example:

- The information provided includes a balance sheet, statement of revenues and expenditures, and statement of cash flows, but DVA management provided no narrative analysis or discussion of the significance of this information.
- The revenues and expenditures of each home were combined in the financial statements DVA provided, when separate reporting is essential for understanding their financial status because funds from King are currently used to support Union Grove's deficits.
- DVA cited its strategic plan and a reorganization plan as part of its efforts to achieve financial solvency for the homes, but these documents provide only general information; do not describe specific actions; and do not address important issues raised in our report on rate setting, such as strategies to address declining occupancy rates in Union Grove's assisted living facilities.
- DVA indicated that business plans will be prepared for the homes. While such plans could presumably provide additional information and financial projections related to the homes' long-term solvency, DVA provided no clear time frame for their completion.

Administrative Expenditures

DVA is required to submit monthly and annual reports to the federal Department of Veterans Affairs documenting expenditures related to medical care, administration, and other operations. We used the expenditure categories provided in these reports to analyze trends in administrative expenditures at the veterans homes, which include salaries, fringe benefits, and travel and training costs for approximately 103.9 full-time equivalent (FTE) staff in their admissions, human resources, information technology, and financial services offices and the offices of each Commandant. In addition, as shown in Table 13, approximately 16.2 FTE positions in DVA’s central office are funded by the veterans homes based on estimates of their time spent on veterans homes operations.

Table 13

Administrative Staff

Location	FTE Positions
King	79.5
Union Grove	24.4
Central Office ¹	16.2
Total	120.1

¹ The veterans homes pay a portion of central office staff administrative costs based on the estimated percentage of time these staff devote to veterans homes operations.

As shown in Table 14, total administrative expenditures increased from \$9.4 million in FY 2004-05 to \$14.2 million in FY 2008-09. Much of the increase is related to the opening of Union Grove’s skilled nursing facility in September 2006.

Administrative expenditures averaged 18.2 percent of operating expenditures from FY 2004-05 through FY 2008-09.

As a percentage of total operating expenditures, the homes’ combined administrative expenditures averaged 18.2 percent from FY 2004-05 through FY 2008-09. As shown in Table 15, they ranged from a low of 17.2 percent in FY 2008-09 to a high of 19.8 percent in FY 2006-07. However, administrative costs for the two homes differed markedly. Union Grove’s administrative expenditures decreased from 44.2 percent of its total expenditures in FY 2004-05 to 25.3 percent in FY 2008-09, while King’s administrative expenditures remained fairly stable during that period and were 13.2 percent of its total expenditures in FY 2008-09.

Table 14

Administrative Expenditures
(in millions)

Fiscal Year	Veterans Homes	Central Office ¹	Total	Percentage Change
2004-05	\$ 8.8	\$0.6	\$ 9.4	–
2005-06	9.6	0.7	10.3	9.6%
2006-07	12.8	0.7	13.5	31.1
2007-08	13.3	1.3	14.6	8.1
2008-09	13.2	1.0	14.2	(2.7)
Total	\$57.7	\$4.3	\$62.0	

¹ Estimates of central office staff time devoted to veterans homes operations.

Table 15

Administrative Expenditures as a Percentage of Total Operating Expenditures
(in millions)

Fiscal Year	Total Operating Expenditures ¹	Administrative Expenditures	Percentage of Total Operating Expenditures
2004-05	\$53.7	\$ 9.4	17.5%
2005-06	58.8	10.3	17.5
2006-07	68.3	13.5	19.8
2007-08	76.1	14.6	19.2
2008-09	82.7	14.2	17.2

¹ Excludes statutorily required lapses to the General Fund and transfers to the Veterans Trust Fund.

Capital Project Expenditures

Capital construction projects are funded primarily through bonding and federal revenue.

The costs of constructing and renovating the veterans homes are typically paid with bonds issued by the State of Wisconsin. Debt service costs are paid either with state program revenue or with GPR. These are not considered operating expenditures and therefore are not shown in Table 10. The federal Department of Veterans Affairs reimburses 65.0 percent of the cost of most construction projects through its State Veterans Home Construction grant program.

Capital project expenditures at the veterans homes totaled \$37.0 million from FY 2004-05 through FY 2008-09.

The homes' combined capital project expenditures totaled \$37.0 million from FY 2004-05 through FY 2008-09, as shown in Table 16. Federal funds paid for 58.4 percent of these expenditures. Debt service costs funded by program revenue totaled \$10.1 million.

Table 16

Capital Project Expenditures by Funding Source
(in millions)

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	Total
Federal	\$ 8.2	\$ 9.9	\$1.6	\$0.1	\$1.8	\$21.6
Program Revenue-Supported Bonding	3.4	5.2	0.7	0.9	(0.1) ¹	10.1
GPR-Supported Bonding	1.9	0.3	<0.1	1.3	0.7	4.2
Other ²	0.5	0.1	0.2	0.1	0.2	1.1
Total	\$14.0	\$15.5	\$2.5	\$2.4	\$2.6	\$37.0

¹ Program revenue was replaced by other funding in FY 2008-09.

² Includes general operating expenditures and Veterans Trust Fund expenditures.

The homes funded 47 capital projects during the period we reviewed.

During the period shown in Table 17, the homes funded 47 projects with capital expenditures—36 at King and 11 at Union Grove—but approximately two-thirds of the capital expenditures were spent at Union Grove. The largest capital project was construction of Boland Hall, the skilled nursing facility at Union Grove that opened in phases from 2006 through 2008 and cost \$14.6 million. The federal Department of Veterans Affairs funded \$9.4 million, and DVA funded \$5.2 million through program revenue-supported bonding.

Table 17

Capital Project Expenditures by Home
(in millions)

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	Total
King	\$ 2.8	\$ 6.5	\$0.7	\$1.6	\$1.6	\$13.2
Union Grove	11.2	9.0	1.8	0.8	1.0	23.8
Total	\$14.0	\$15.5	\$2.5	\$2.4	\$2.6	\$37.0

Other significant capital project expenditures include:

- renovation of King’s kitchen facilities to accommodate cook-chill food preparation, which was funded by \$3.7 million in federal funds, \$2.0 million in program revenue–supported bonding, \$178,000 in other DVA funds, and \$160,000 in GPR-supported bonding;
- construction of an activities center at Union Grove, which was funded by \$1.8 million in federal funds and \$1.0 million in program revenue–supported bonding; and
- construction of a kitchen facility at Union Grove, which was funded by \$1.6 million in federal funds, \$1.1 million in program revenue–supported bonding, and \$43,600 in other DVA funds.

The 2009-11 Biennial Budget Act authorized two additional renovation projects at King and one additional project at Union Grove, with projected costs of \$5.9 million. They are to be funded initially with \$3.8 million in program revenue–supported bonding and \$2.1 million in GPR-supported bonding, although DVA expects to receive federal reimbursements for all bonding supported by program revenue, or approximately 65.0 percent of the projected total costs.

Construction for each project is expected to begin in 2011. The projects include:

- a \$2.5 million renovation of bathing areas and nurses stations on each floor in Olson and Stordock halls at King;
- a \$2.3 million reconstruction of the roads and sidewalks on the King grounds, which have reached or exceeded their useful lives, and replacement of outdoor light fixtures and installation of additional fixtures to create safer nighttime travel; and
- a \$1.1 million renovation of light fixtures and floor and ceiling tiles in Fairchild and Shemanske halls at Union Grove to improve lighting levels for residents with poor vision and provide more durable flooring materials.

DVA’s proposed 2011-13 biennial capital budget enumerated only one project at King, for elevators and related equipment upgrades to meet fire protection standards, at an estimated cost of \$4.6 million.

As of May 2010, projected debt service payments totaled \$29.0 million.

As of May 2010, DVA's total projected debt service payments from all funding sources were \$29.0 million. Appendix 3 shows projected debt service payments through FY 2029-30.

DVA plans to open a new skilled nursing facility in Chippewa Falls in November 2012.

DVA also plans to construct a new, 72-bed skilled nursing facility in Chippewa Falls, as authorized by 2003 Wisconsin Act 102. That home is intended primarily to serve veterans who live in northwestern Wisconsin, and the federal Department of Veterans Affairs has committed to funding 65.0 percent of the approximately \$20.4 million project.

In September 2010, the State Building Commission unanimously approved the facility's design report and DVA's authority to use \$7.0 million in existing program revenue-supported borrowing for the project. DVA is expecting construction to begin in April 2011 and projecting that the home will open in November 2012, and its 2011-13 biennial budget request includes an operating budget of \$6.7 million over two years and 91.5 additional FTE positions to staff the new facility.

Gifts and Bequests

The homes designate gift and bequest revenue for purposes specified by donors.

DVA may accept gifts and bequests for general management of the veterans homes or for other purposes specified by donors. Currently, staff at both homes deposit funds into state accounts that identify the purposes for which funds have been donated, such as for a memorial, resident outings, activity supplies, or as general donations when no specific purposes have been identified by donors. Letters are sent to donors acknowledging their gifts. Both King and Union Grove also have recreation committees, which include residents and members of local veterans organizations. These committees are operated independently from the homes and run by volunteers, who generate ideas for donations and organize and sponsor events. The committees often receive funds directly from donors, which they provide to the homes.

In 2008, the former public information officer at King was sentenced to one year in jail and four years of probation for embezzling \$62,000 donated by the King recreation committee between 2005 and 2007, and an additional \$201,000 donated by the American Veterans Association between 1999 and 2005. All funds were recovered from the former employee.

From FY 2004-05 through FY 2008-09, the veterans homes received gifts totaling \$1.6 million.

As shown in Table 18, the homes received \$1.6 million in gifts during the period we reviewed. King received the largest share. Donated property, such as books, pictures, or electronics, is inventoried but not assigned a value. If donated funds remain after a specified gift has been purchased, additional instructions are requested from the donor or the funds are deposited in a general donation fund. The largest purchases we reviewed were funded by gifts to King for

vehicles and their maintenance and included \$159,700 for a handicapped-accessible bus at King and \$177,400 for two vans, two mini-buses, and their maintenance at Union Grove. Buses and vans are used to transport residents to medical appointments and for recreational outings. Staff indicated that donors were aware and approved of funds being used at both homes.

Table 18

Purposes of Donated Funds
FY 2004-05 through FY 2008-09

Purpose	Revenues	Expenditures ¹
King		
Vehicle Purchase and Maintenance ²	\$ 456,300	\$ 337,100
Activities/Events for Residents	197,100	197,000
Memorials and Funerals	94,400	90,400
Pastor Services	77,000	50,500
Undesignated Purpose ³ :	678,700	
Other ⁴		251,900
Televisions and Furniture		70,200
Blanket Warmers		29,500
Resident Storage Bins		18,000
Cable Television and Magazine Subscriptions		13,100
Subtotal	1,503,500	1,057,700
Union Grove		
Activities/Events for Residents	55,500	55,800
Gazebo Construction	34,600	34,000
Undesignated Purpose ³	29,900	17,500
Memorials and Funerals	14,300	12,300
Transportation	12,100	5,700
Subtotal	146,400	125,300
Total	\$1,649,900	\$1,183,000

¹ Expenditures may exceed revenues in a particular category if undesignated funds were used to supplement a purchase.

² Includes \$159,700 for the purchase of a handicapped-accessible bus at King and \$177,400 for two vans, two mini-buses, and their maintenance at Union Grove.

³ Represents revenue associated with trusts and estates or other donations for undesignated purposes that are spent based on staff and resident recommendations.

⁴ Includes many small expenditures for things such as pontoon boat maintenance and water cooler rentals.

Our review of gifts and bequests indicated that the funds were spent for the purposes for which they had been donated.

Union Grove and King have updated their written accounting policies for donations. We reviewed a judgmental sample of 157 transactions of donated funds and related expenditures totaling \$1.2 million from FY 2004-05 through FY 2008-09 to determine whether proper procedures had been followed and expenditures had been made for their intended purposes. Our review excluded transactions associated with funds embezzled by the former employee. Available documentation showed that all donated funds we reviewed had been spent as intended, and controls and procedures in place at each home appeared to be adequate and effective in ensuring proper use of gifts and bequests. The FY 2008-09 year-end gifts and bequests account balance for both homes totaled \$652,100.

■ ■ ■ ■

Staffing ■

More than one-half of the veterans homes' employees are nursing staff. We evaluated both homes':

- compliance with state and federal staffing requirements for skilled nursing facilities, as well as their efforts to address staffing needs associated with turnover and long-term leave;
- reliance on overtime, as well as their overtime costs; and
- efforts to recruit and retain nursing staff.

Staffing Levels

More than one-half of veterans home employees are nursing assistants, licensed practical nurses, and nurse clinicians.

In FY 2008-09, the veterans homes were authorized to fill 953.8 permanent FTE staff positions, including 507.0 FTE nursing positions. Nursing staff include:

- nursing assistants, who observe the health of residents and provide personal care that includes assistance with daily activities such as meals, movement, and hygiene;
- licensed practical nurses, who observe the health of residents and provide personal care that includes administering medications; and

- nurse clinicians, who are registered nurses and provide care to residents, assess and document their health, develop and implement resident care plans, and assist with the management and training of other nursing staff.

Position authority increased largely because Union Grove opened a skilled nursing facility in September 2006.

As shown in Table 19, the homes’ position authority increased by 19.3 percent during the five-year period we reviewed, largely because of the opening of the skilled nursing facility at Union Grove in September 2006.

Table 19

Authorized FTE Positions at Veterans Homes

	FY 2004-05	FY 2008-09	Percentage Change
King			
Nursing Staff	344.0	391.5	13.8%
Other Staff	346.8	348.3	0.4
Subtotal	690.8	739.8	7.1
Union Grove¹			
Nursing Staff	60.5	115.5	90.9
Other Staff	48.0	98.5	105.2
Subtotal	108.5	214.0	97.2
Total	799.3	953.8	19.3

¹ The number of permanent positions increased at Union Grove largely because of the opening of its skilled nursing facility in September 2006.

LTEs are intended to be temporary staff who fill position vacancies resulting from turnover and long-term leave.

Limited-term employees (LTEs) are intended to temporarily fill position vacancies that result from turnover and long-term leave. LTEs perform the same duties as permanent employees with the same job title, but LTEs do not earn retirement, sick leave, or vacation benefits and are not guaranteed a specific work schedule. In FY 2008-09, both homes employed LTEs who worked the equivalent of 70.2 FTE positions, including 24.2 FTE nursing positions and 46.0 FTE food service, custodial, and other positions. As shown in Table 20, most of the LTE nursing staff worked at King and most worked as nursing assistants.

Table 20

Estimated LTE Nursing Positions¹

Position Type	FY 2004-05	FY 2008-09	Percentage Change
King			
Nursing Assistants	7.1	20.3	185.9%
Licensed Practical Nurses	0.2	0.2	0.0
Nurse Clinicians	3.2	0.9	(71.9)
Subtotal	10.5	21.4	103.8
Union Grove			
Nursing Assistants	1.1	1.1	0.0
Licensed Practical Nurses	–	0.3	NA
Nurse Clinicians	0.4	1.4	250.0
Subtotal	1.5	2.8	86.7
Total	12.0	24.2	101.7

¹ Full-time equivalency estimates based on hours worked during the fiscal year.

The homes' salary expenditures increased to \$42.9 million in FY 2008-09, in part because of increased staffing needs.

As shown in Table 21, the homes' expenditures for wages paid to permanent and LTE staff increased from \$29.2 million in FY 2004-05 to \$42.9 million in FY 2008-09, in part because additional staff were hired and additional hours were worked to meet federal and state staffing requirements after the opening of Union Grove's skilled nursing facility in September 2006.

As shown in Table 22, the largest share of each home's expenditures for nursing staff wages is for nursing assistants, who observe residents' health and assist them with meals, movement, hygiene, and other daily activities.

Table 21

Wage Expenditures for Veterans Home Staff
(in millions)

	FY 2004-05	FY 2008-09	Percentage Change
Nursing Staff			
King	\$12.8	\$17.3	35.2%
Union Grove	1.0	5.0	400.0
Subtotal	13.8	22.3	61.6
Other Staff			
King	14.2	\$16.5	16.2
Union Grove	1.2	4.1	241.7
Subtotal	15.4	20.6	33.8
Total	\$29.2	\$42.9	46.9

Table 22

FY 2008-09 Wage Expenditures for Nursing Staff¹
(in millions)

	Amount	Percentage of Total
King		
Nursing Assistants	\$ 9.8	43.9%
Licensed Practical Nurses	3.1	13.9
Nurse Clinicians	3.8	17.1
Limited-Term Employees	0.6	2.7
Subtotal	17.3	77.6
Union Grove		
Nursing Assistants	3.3	14.8
Licensed Practical Nurses	0.4	1.8
Nurse Clinicians	1.2	5.4
Limited-Term Employees	0.1	0.4
Subtotal	5.0	22.4
Total	\$22.3	100.0%

¹ Includes permanent and LTE staff.

Staffing Requirements in Skilled Nursing Facilities

State and federal law establish minimum requirements for direct care provided to nursing home residents.

Federal regulations and Wisconsin Statutes require nursing staff to be available 24 hours per day to provide direct care to residents, including assistance with medical and personal needs, and establish minimum care requirements. For example:

- 38 CFR 51.130 requires veterans homes receiving per diem payments from the federal Department of Veterans Affairs to provide no less than 2.5 hours of direct care per resident per day, although the type of nursing staff providing care is not specified;
- 42 CFR 483.30 requires long-term care facilities qualifying for federal Medicare or Medical Assistance payments to provide “sufficient” nursing staff to meet resident needs, including registered nurse care available at least eight hours per day; and
- s. 50.04(2)(d), Wis. Stats., requires skilled nursing facilities in Wisconsin to provide at least 2.0 to 3.25 hours of total nursing care per resident per day, including 0.4 to 0.65 hours provided by either a licensed practical nurse or a registered nurse, with minimum time periods defined by the care levels to which residents have been assigned. As was shown in Table 8, all of Union Grove’s nursing home residents and 77.4 percent of King’s residents were assigned to levels of care that required more hours of care provided by nursing staff with more professional training.

Because the homes do not maintain records that reflect the number of hours nursing staff spend with each individual resident, we analyzed the veterans homes’ compliance with staffing requirements for skilled nursing facilities by comparing the average number of hours worked by the nursing staff who provided care to residents in FY 2008-09 to the average number of hours required based on resident population. Because not all nursing staff provided direct nursing care, we excluded the hours of those assigned to training or supervisory functions.

In FY 2008-09, the homes provided sufficient nursing care staff hours to meet federal and state requirements.

We found that both homes met or exceeded federal and state direct care staffing requirements. We estimate that, on average, King provided a minimum of 2.8 direct care hours per resident per day, and Union Grove provided a minimum of 3.7 direct care hours per resident per day, as shown in Table 23.

Table 23

**Minimum Nursing Care Hours at Skilled Nursing Facilities
FY 2008-09**

	Federally Required Minimum Hours of Care per Resident per Day	Estimated Minimum Hours of Direct Care Provided per Resident per Day
King ¹	2.5	2.8
Union Grove	2.5	3.7

¹ Minimum care requirements were combined for the four skilled nursing facilities at King.

The hours of direct nursing care provided at each home differ because of residents' medical needs.

We also estimate the veterans homes met or exceeded the statutory requirement for care provided by a licensed practical nurse or a registered nurse. In FY 2008-09, King provided a minimum of 0.7 hours of care by a licensed practical nurse or a registered nurse per resident per day, and Union Grove provided a minimum of 1.0 hour of care by a licensed practical nurse or a registered nurse per resident per day. More hours of care were provided per resident at Union Grove, and more care at Union Grove was provided by licensed practical nurses and registered nurses, because a larger percentage of Union Grove residents were required to receive skilled nursing care because of their medical needs.

Meeting Staffing Needs

To help meet state and federal staffing requirements for skilled nursing facilities and to address turnover and long-term leave, DVA has relied on two primary strategies:

- extra time worked by part-time employees, who receive their regular rates of pay for working up to 40 hours per week; and

- overtime worked by full- and part-time employees, who are generally paid at higher rates for hours in excess of 40 per work week.

Part-time nurses are permitted to volunteer to work extra time and they may work full-time schedules, earning additional leave time, including vacation and sick leave, proportionate to the amount of extra time worked. Both full-time and part-time nursing staff who work more than 40 hours per week earn premium overtime, which is paid at 1.5 times the regular rate of pay. In contrast, supervisors and non-represented employees are typically paid at their regular rates for any overtime worked.

The homes also hire contract nurses to help meet staffing requirements.

Both homes also employ contract staff through private agencies to supplement the care of veterans home residents, although they indicate that contract nurses are hired infrequently because contract nurses are more costly than the homes' employees. Table 24 shows expenditures for each strategy in FY 2008-09.

Table 24

**Expenditures for Additional Nursing Time
FY 2008-09**

	Extra Time	Overtime	Contract Staff	Total
King				
Nursing Assistants	\$ 748,000	\$1,046,500	\$ 46,100	\$1,840,600
Licensed Practical Nurses	199,300	152,200	66,600	418,100
Nurse Clinicians	143,000	163,400	46,500	352,900
Subtotal	1,090,300	1,362,100	159,200	2,611,600
Union Grove				
Nursing Assistants	263,600	437,200	0	700,800
Licensed Practical Nurses	41,800	20,600	80,500	142,900
Nurse Clinicians	105,600	117,000	17,100	239,700
Subtotal	411,000	574,800	97,600	1,083,400
Total	\$1,501,300	\$1,936,900	\$256,800	\$3,695,000
Hours Worked	94,200	69,200	8,300	171,700
FTE Positions Based on Hours Worked	45.1	33.1	4.0	82.2

Seven labor unions represent veterans homes employees.

Seven labor unions represent veterans homes employees, including the Service Employees International Union, which represents nurse clinicians, and the Wisconsin State Employees Union, which represents nursing assistants and licensed practical nurses. State and local bargaining agreements with these unions require the veterans homes to follow specified policies and procedures for setting work schedules and assigning additional hours, including:

- assigning hours to part-time staff and staff who volunteer to fill vacant shifts before assigning mandatory overtime hours to full-time employees; and
- basing rotating overtime assignments on reverse seniority, which is determined by how long an employee has worked for the home and first assigns mandatory overtime to the least-senior employee.

State employees are required to take eight unpaid furlough days in each year of the 2009-11 biennium. Because our audit focused on FY 2008-09, we did not evaluate the possible effects of furloughs on the extra time and overtime worked by nursing staff. However, the homes indicated that furlough requirements are being met by reducing each shift worked by 15 minutes, which reduces or eliminates planned overlap between shifts.

Extra Time

During the five-year period we reviewed, 6.0 percent of all hours worked at King and 6.3 percent of all hours worked at Union Grove were extra hours worked by part-time nursing and non-nursing staff at regular rates of pay. In FY 2008-09, all part-time staff at King worked 98,400 hours of extra time, and all part-time staff at Union Grove worked 29,000 additional hours. However, nursing staff accounted for 73.9 percent of the extra time worked at the homes in FY 2008-09, or the equivalent of 45.1 FTE positions. As shown in Table 25, most of the increase in hours worked by part-time nursing staff during the period we reviewed occurred at Union Grove, largely because of the opening of its skilled nursing facility in September 2006. For the 70,300 hours of extra time nursing staff at King worked in FY 2008-09, they earned 20,300 hours of additional leave.

Table 25

Extra Time Worked by Nursing Staff
(in hours)

	FY 2004-05	FY 2008-09	Percentage Change
King			
Nursing Assistants	49,300	55,000	11.6%
Licensed Practical Nurses	6,500	10,500	61.5
Nurse Clinicians	7,100	4,800	(32.4)
Subtotal	62,900	70,300	11.8
Union Grove			
Nursing Assistants	3,700	18,200	391.9
Licensed Practical Nurses	–	2,300	NA
Nurse Clinicians	700	3,400	385.7
Subtotal	4,400	23,900	443.2
Total	67,300	94,200	40.0

Overtime

During the five-year period we reviewed, 4.1 percent of all hours worked at King and 5.0 percent of all hours worked at Union Grove were overtime hours. In FY 2008-09, nursing and non-nursing staff at King worked 60,600 overtime hours, and nursing and non-nursing staff at Union Grove worked 26,700 hours. However, nursing staff at both homes accounted for 79.3 percent of the overtime worked. Their overtime hours were the equivalent of 33.1 FTE positions. As shown in Table 26, overtime worked by nursing staff at King decreased 9,200 hours, or 16.1 percent, during the period we reviewed, largely because additional staff were hired.

The Legislature authorized 33.0 additional FTE nursing positions in the 2005-07 biennium and 15.0 in the 2007-09 biennium.

As part of the 2005-07 biennial budget process, DVA requested and the Legislature authorized 33.0 FTE nursing positions at King, including 12.0 FTE licensed practical nurse positions and 21.0 FTE nursing assistant positions. The Legislature also authorized 15.0 of 48.5 FTE positions DVA requested for the 2007-09 biennium, including 4.0 FTE nurse clinician positions and 11.0 FTE unspecified direct care nurse positions, and it provided additional funding for LTE positions at King and overtime costs at both homes. No additional nursing positions were authorized in the 2009-11 biennium, but DVA's 2011-13 biennial budget request includes an additional 2.0 FTE nurse clinician positions at King.

Table 26
Overtime Worked by Nursing Staff
(in hours)

	FY 2004-05	FY 2008-09	Percentage Change
King			
Nursing Assistants	47,600	41,600	(12.6)%
Licensed Practical Nurses	3,800	3,800	0.0
Nurse Clinicians	5,900	2,700	(54.2)
Subtotal	57,300	48,100	(16.1)
Union Grove			
Nursing Assistants	2,400	18,300	662.5
Licensed Practical Nurses	100	600	500.0
Nurse Clinicians	100	2,200	2,100.0
Subtotal	2,600	21,100	711.5
Total	59,900	69,200	15.5

The primary reason rates for skilled nursing care are higher at Union Grove than at King appears to be more nursing staff positions per resident at Union Grove.

As of June 2009, the number of skilled nursing staff positions—including all LTE, extra time- and overtime-equivalent positions—was the equivalent of 0.76 full-time positions per nursing home resident at Union Grove and 0.64 FTE positions per nursing home resident at King. This difference of 0.12 FTE nursing staff positions appears to be the primary reason private pay rates for skilled nursing care charged to veterans in January 2010, which are based on projected expenditures, were \$50 per day higher at Union Grove, as noted in our August 2010 letter report on rate setting at the veterans homes.

As shown in Table 27, 7.4 percent of all nursing staff positions at the veterans homes were not filled as of June 30, 2009. The vacancy rate was highest for licensed practical nurses at King, where 10.1 percent of positions were unfilled, and lowest for licensed practical nurses at Union Grove, where 4.8 percent of positions were unfilled.

There are many factors to consider when comparing the cost of overtime with the cost of hiring additional employees, including hourly wage rates, the number of hours required to meet staffing needs, and fringe benefit costs. We estimate the cost of overtime at King in FY 2008-09 was \$112,800 more than it would have cost to hire additional nursing staff, as shown in Table 28. However, we also estimate that overtime cost \$29,400 less than it would have cost to hire additional nursing staff for all of Union Grove's facilities in that same year.

Table 27

FTE Nursing Staff Vacancies
As of June 30, 2009

	Number of Positions	Percentage
King		
Nursing Assistants	18.0	6.7%
Licensed Practical Nurses	7.0	10.1
Nurse Clinicians	4.0	7.5
Subtotal	29.0	7.4
Union Grove		
Nursing Assistants	7.0	7.8
Licensed Practical Nurses	0.5	4.8
Nurse Clinicians	1.0	6.5
Subtotal	8.5	7.4
Total	37.5	7.4

Table 28

Overtime and Position Cost Comparison for Nursing Staff
FY 2008-09

	Overtime Cost	New Staff Cost ¹	Difference
King			
Nursing Assistants	\$1,046,500	\$ 979,900	\$ 66,600
Licensed Practical Nurses	152,200	119,500	32,700
Nurse Clinicians	163,400	149,900	13,500
Total	\$1,362,100	\$1,249,300	\$112,800
Union Grove			
Nursing Assistants	\$437,200	\$471,500	\$(34,300)
Licensed Practical Nurses	20,600	21,500	(900)
Nurse Clinicians	117,000	111,200	5,800
Total	\$574,800	\$604,200	\$(29,400)

¹ Estimated cost of additional staff that would have been needed to avoid 48,100 overtime hours at King and 21,100 overtime hours at Union Grove; excludes certain wage adjustments some staff may earn, including additional pay received for working nights and weekends.

As staffing needs and costs change at the homes, it will continue to be important for DVA to routinely review its staffing levels and overtime costs and determine the most appropriate methods for meeting nurse staffing requirements.

☑ Recommendation

We recommend the Department of Veterans Affairs annually analyze overtime costs and the cost of hiring additional nursing staff to meet state and federal nurse staffing requirements at each of the veterans homes, and report on its analysis of FY 2009-10 overtime costs to the Joint Legislative Audit Committee by July 1, 2011.

Retention and Recruitment Efforts for Nursing Staff

The veterans homes generally retained a larger percentage of their full-time nursing staff than other public or private nursing homes in Wisconsin.

As required by s. 50.095, Wis. Stats., DHS completes a report each year that includes retention rate calculations for nursing staff in skilled nursing facilities. In 2009, DVA’s nursing homes generally retained a larger percentage of their full-time nursing staff than the statewide average for public and private nursing homes, as shown in Table 29. However, for part-time nursing assistants and licensed practical nurses, Union Grove’s retention rate was lower than the statewide average and lower or equal to the Racine County average.

Table 29

Full-time Nursing Staff Retention Rates¹
Calendar Year 2009

	Nursing Assistants		Licensed Practical Nurses		Nurse Clinicians	
	Full-time	Part-time	Full-time	Part-time	Full-time	Part-time
King	95.0%	63.0%	94.0%	77.0%	93.0%	100.0%
Waupaca County Average	85.0	58.0	91.0	73.0	85.0	76.0
Union Grove ²	92.0	53.0	86.0	56.0	88.0	75.0
Racine County Average	81.0	53.0	76.0	66.0	72.0	63.0
Statewide Average	79.0	63.0	87.0	71.0	76.0	67.0

¹ Source: DHS Summary 2009 Consumer Information Reports for Nursing Homes. Retention rate is defined as the proportion of staff working at the beginning of the year who were still employed by the end of the year.

² Skilled nursing facility only.

To facilitate recruitment and retention efforts, statutes authorize the veteran homes to develop education stipend programs.

Retention of experienced nursing staff helps to ensure the provision of quality care to nursing home residents, reduces DVA's recruiting and training costs, and facilitates the efficient operation of the veterans homes. To facilitate recruitment and retention efforts, s. 45.50(9), Wis. Stats., authorizes DVA to develop a stipend program for individuals who attend school and earn credentials to become employed at the veterans homes. Union Grove does not currently operate any stipend programs, but King operates two: the Registered Nurse Education Stipend Program was established in 2004, and the Licensed Practical Nurse Stipend Program was established in 2002.

King operates two stipend programs for nursing staff.

The Registered Nurse Education Stipend Program provides a maximum training stipend of \$3,750 per semester, for up to four semesters. The Licensed Practical Nurse Stipend Program requires each participant to work the equivalent of at least a half-time position as a nursing assistant at King while enrolled in training and to work full-time during school breaks. Each participant is paid full-time wages even if hours worked are less than a typical full-time schedule, and the training provider, Fox Valley Technical College, is paid by King for each participating employee's tuition.

Each participant must sign a written agreement to work at DVA for a minimum of two years upon completing either program, or they may be required to repay the stipends received. Prospective participants must submit applications that include proof of admission to a training program. A selection committee consisting of King's Director of Nursing, the stipend program coordinator, the clinical nursing instructor, and union representatives selects six participants for the Licensed Practical Nurse Stipend Program in a competitive process each year. In contrast, the number of Registered Nurse Education Stipend Program participants varies annually based on anticipated retirements and other vacancies, and the Director of Nursing interviews applicants and makes selection recommendations for the program to the Commandant.

As shown in Table 30, stipend program expenditures, excluding wages for participating employees, totaled \$300,400 from FY 2004-05 through FY 2008-09. In FY 2008-09, the six participants in the Licensed Practical Nurse Stipend Program were paid a total of \$200,200 in wages, including \$65,400 for attending school.

Table 30

Nurse Education Stipend Program Expenditures¹

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	FY 2008-09	Total
Registered Nurse Education Stipend	\$60,000	\$33,800	\$41,300	\$39,000	\$33,800	\$207,900
Licensed Practical Nurse Stipend	19,400	17,900	20,700	17,800	16,700	92,500
Total	\$79,400	\$51,700	\$62,000	\$56,800	\$50,500	\$300,400

¹ Excludes wages paid to program participants while at work or school.

From FY 2004-05 through FY 2008-09, 25 individuals participated in the Registered Nurse Education Stipend Program, and 10 had completed training and worked at King for at least two years as of May 2010. Of the remaining 15 participants:

- 4 had completed their training and were working as nurse clinicians at King;
- 3 were still in training; and
- 8 did not complete the requirements of the Registered Nurse Education Stipend Program because they did not complete the required courses or did not fulfill the two-year employment requirement.

From FY 2004-05 through FY 2008-09, 32 individuals participated in the Licensed Practical Nurse Stipend Program, and 19 had fulfilled program requirements as of May 2010. Of the remaining 13 participants:

- 11 had completed training and were working as licensed practical nurses at King; and
- 2 did not complete the requirements of the program because they did not complete the required courses or did not fulfill the two-year employment requirement.

As of May 2010, stipends had not been repaid by nine of the ten individuals who did not complete their program requirements. One individual's repayment requirement had been waived because a registered nurse position was not vacant and available when she completed training, two cases were under review by King staff, and

the remaining six program participants owed a total of \$32,100. In September 2010, King implemented a new policy for collecting debts from former employees, including debts related to salary overpayments and stipend repayments. Program participants who are required to repay their stipends may elect to enter a monthly installment repayment agreement with DVA. If no payments have been received and a repayment agreement is not in place within 105 days of DVA's initial repayment request, DVA will refer the debt to the Department of Revenue Statewide Debt Collection program.

Ten of 57 participants did not complete all requirements of the stipend programs.

Given that both stipend programs had only 57 participants during the five-year period we reviewed, including the 10 who did not complete their training or employment requirements, it is difficult to determine the extent to which these programs have been useful in recruiting and retaining nursing staff. If DVA believes the programs are beneficial and help to meet federal and state nursing staff requirements, we believe it should work with the Board of Veterans Affairs to promulgate administrative rules for the Licensed Practical Nurse Stipend Program that are similar to ch. VA 18, Wis. Adm. Code, which governs the Registered Nurse Education Stipend Program and include application procedures, eligibility criteria, maximum stipend amounts, and repayment requirements for participants who do not fulfill their commitments.

Recommendation

We recommend the Department of Veterans Affairs work with the Board of Veterans Affairs to determine whether to continue operating the Registered Nurse Education Stipend Program and Licensed Practical Nurse Stipend Program and report the decision to the Joint Legislative Audit Committee by July 1, 2011.

■ ■ ■ ■

Compliance with State and Federal Nursing Home Regulations ■

The veterans homes' skilled nursing and assisted living facilities are subject to routine, unannounced inspections by DHS and the federal Department of Veterans Affairs to evaluate their compliance with operating requirements, including resident services and rights, the physical environment, and the quality of life. We analyzed the number and types of citations for noncompliance, whether DVA adequately reported citations to the Board of Veterans Affairs, and whether DVA corrected the problems for which the homes were cited.

Regulation of Skilled Nursing Facilities

The veterans homes are inspected regularly by both DHS and the federal Department of Veterans Affairs.

Each of the four skilled nursing facilities at King and the one at Union Grove are separately licensed and are inspected at least every 15 months by DHS, which evaluates compliance with state licensing requirements and with federal Medicare and Medical Assistance program requirements. In addition, the federal Department of Veterans Affairs inspects each home's skilled nursing facilities annually to ensure compliance with care and services requirements related to the receipt of federal per diem payments for veterans. Inspectors issue citations when nursing homes do not comply with standards in seven categories:

- life safety code standards, which establish fire safety requirements;
- quality of care standards, such as prevention of pressure sores, which promote residents' well-being;

- resident services standards, which include development of a comprehensive care plan for each resident and supervision of each resident's medical care by a physician;
- freedom from restraints and abuse standards, which include prohibitions against employing individuals who have abused residents and requirements for investigating all alleged resident abuse;
- quality of life standards, which include providing a pleasant homelike atmosphere and food that is palatable, attractive, and at the proper temperature;
- resident rights standards, which include the right to self-administer drugs and the right to send and promptly receive mail that is unopened; and
- other administrative standards, which include maintaining complete, readily accessible clinical records on each resident.

If DHS inspectors determine that standards have been violated, they issue citations and require the facility to make corrections. We reviewed all citations the veterans homes were issued by DHS for violations of both state and federal law from 2005 through 2009. As shown in Table 31, the number of citations the homes were issued was similar to the statewide average for all nursing homes, although the number of citations at King generally increased.

The homes' most common citations have been for failing to meet life safety code fire protection requirements.

As shown in Table 32, noncompliance with life safety code standards was the most common citation issued at both the King and Union Grove skilled nursing facilities during the period we reviewed. Life safety code citations were issued for violations such as failure to provide doors that resist the passage of smoke during a fire, failure to conduct unannounced fire drills, and failure to properly store liquid oxygen containers.

Table 31

Citations Issued to Nursing Homes¹

	2005	2006	2007	2008	2009
King					
Ainsworth Hall	7	1	12	17	15
MacArthur Hall	2	6	8	9	13
Olson Hall	12	9	8	4	27
Stordock Hall	2	8	5	1	12
Union Grove					
Boland Hall	NA ²	1	11	16	8
Statewide Average ³	9.2	11.1	13.1	15.1	14.5

¹ Includes violations of both state and federal law as identified by DHS.

² Union Grove's skilled nursing facility opened in September 2006.

³ The total number of nursing homes inspected each year may vary. In 2009, it was 399.

Table 32

**Citations Issued to Skilled Nursing Facilities at King and Union Grove¹
2005 through 2009**

Citation Type	King		Union Grove	
	Number	Percentage of Total	Number	Percentage of Total
Life Safety Code	72	40.5%	18	50.0%
Quality of Care	42	23.6	10	27.8
Resident Services	26	14.6	4	11.1
Freedom from Restraints and Abuse	18	10.1	1	2.8
Quality of Life	12	6.7	3	8.3
Resident Rights	7	3.9	0	0.0
Other Administrative Violations	1	0.6	0	0.0
Total	178	100.0%	36	100.0%

¹ Includes violations of both state and federal law as identified by DHS.

Federal regulations group federal violations into one of three broad categories, based on their scope and severity:

- “substandard quality of care” includes the most severe or widespread violations, such as incidents resulting in harm to numerous residents;
- “noncompliance” includes incidents such as those resulting in no actual harm to residents, but the potential for more than minimal harm, as well as isolated incidents resulting in actual harm to residents; and
- “substantial compliance” includes incidents resulting in no actual harm to residents, but having the potential for minimal harm.

State statutes group state violations into one of three categories, based on their severity:

- “class A” violations include those presenting a substantial probability that death or serious mental or physical harm will occur to residents;
- “class B” violations include those directly threatening the health, safety, or welfare of residents; and
- “class C” violations include those not directly threatening the health, safety, or welfare of residents.

King was issued one citation for substandard quality of care during the period we reviewed.

As shown in Table 33, King was issued one citation for the most serious of the three types of federal violations during the period we reviewed. The citation was for failing to prevent pressure sores and to have a system in place to ensure that routine skin monitoring was occurring.

Table 33

**Severity of Citations Issued to Skilled Nursing Facilities
2005 through 2009**

Severity Category	Citations at King		Citations at Union Grove ¹		Citations at All Nursing Homes in Wisconsin	
	Number	Percentage	Number	Percentage	Number	Percentage
Violations of Federal Law						
Substandard Quality of Care	1	0.6%	0	0.0%	307	1.4%
Noncompliance	144	88.9	24	68.6	18,890	87.3
Substantial Compliance	17	10.5	11	31.4	2,437	11.3
Severity Level Not Available	0	0.0	0	0.0	4	<0.1
Total	162	100.0%	35	100.0%	21,638	100.0%
Violations of State Law						
Class A	0	0.0%	0	0.0%	202	5.7%
Class B	14	87.5	1	100.0	2,017	57.3
Class C	2	12.5	0	0.0	1,165	33.1
Severity Level Not Available	0	0.0	0	0.0	138	3.9
Total	16	100.0%	1	100.0%	3,522	100.0%

¹ Union Grove’s skilled nursing facility opened in September 2006.

Regulation of Assisted Living Facilities

The number and type of citations issued to Union Grove’s assisted living facilities were similar to statewide averages from 2005 through 2009.

Union Grove’s three assisted living facilities are also inspected approximately every 24 months by DHS to evaluate compliance with state licensing and certification requirements, and annually by the federal Department of Veterans Affairs. Table 34 shows the number of citations DHS issued to Union Grove’s assisted living facilities, along with the statewide average from 2005 through 2009. The ten citations Union Grove was issued over this period included failure to evaluate residents’ capabilities for evacuating the facilities and failure to report an altercation between residents that resulted in the hospitalization of one resident.

Table 34

Citations Issued to Union Grove's Assisted Living Facilities

	2005	2006	2007	2008	2009
Fairchild Hall	1	No review ¹	0	3	0
Gates Hall	1	No review	0	No review ¹	2
Shemanske Hall	1	No review	2	No review	0
Statewide Average ²	2.0	2.1	1.7	1.6	1.7

¹ Indicates DHS did not inspect the facility during the year.

² The number of similar assisted living facilities inspected each year may vary. In 2009, it was 925.

Responding to Regulatory Citations

In addition to issuing citations, and depending on the scope and severity of the noncompliance, the Centers for Medicare and Medicaid Services and DHS may issue enforcement actions if the homes fail to comply with requirements. Federal enforcement actions may include fines, denial of payment for all new Medicare and Medical Assistance residents, and termination of Medicare and Medical Assistance provider agreements. One of King's skilled nursing facilities was denied Medical Assistance payments for new admissions in 2005 for failure to meet life safety code standards, and in 2008 for failure to prevent pressure sores and to have a system to ensure that routine skin monitoring was occurring. King staff explained that they worked to implement a corrective action plan, and revenue was not lost as a result of these denials because when one of the skilled nursing facilities is denied Medical Assistance payments for new admissions, new residents may be admitted to one of the other three facilities at King.

In 2008, the Centers for Medicare and Medicaid Services also assessed a \$4,713 civil penalty for King's failure to prevent pressure sores, which has not been paid to date, and in 2009 DHS assessed and Union Grove paid a \$1,000 forfeiture related to the death of an assisted living facility resident, which occurred when the individual, who had a history of dementia, exited the facility unobserved and subsequently died from hypothermia. The family has also filed a wrongful death lawsuit claiming Union Grove's staff should have monitored the resident more closely. The case was dismissed in

circuit court in March 2010 but has been appealed. No further action had been taken as of November 2010.

Skilled nursing facilities and assisted living facilities are required to submit plans of correction to DHS for all but the least severe citations. A plan of correction describes the actions the facility will take to correct deficiencies and specifies the date by which those deficiencies will be corrected. DHS may then conduct follow-up visits or review documents submitted by the facility to verify that the facility made corrections.

The veterans homes corrected all 169 of the “substandard care” and “noncompliance” citations issued from 2005 through 2009.

DHS is not required to confirm that corrections have been made for “substantial compliance” citations. However, DHS verified that from 2005 through 2009, the veterans homes came into compliance with all 169 skilled nursing facility violations in the “substandard care” and “noncompliance” severity categories and all 17 violations of state law. DHS also verified that Union Grove came into compliance with all assisted living citations except for two issued in 2009, for which Union Grove submitted plans of correction that DHS will verify when conducting its next inspection, which is expected to occur by March 2011.

The homes regularly provide written reports to the DVA Secretary and the Board of Veterans Affairs describing recent DHS and federal Department of Veterans Affairs inspections. However, the reports do not readily allow the homes’ citations to be compared over time or with those issued to other skilled nursing facilities in Wisconsin. For example, at the June 2010 meeting of the Board of Veterans Affairs, King’s report on a DHS inspection of one of its skilled nursing facilities conducted in April 2010 did not explain whether corrections had been made, nor did it offer comparisons to previous inspections of similar public or private skilled nursing facilities in Wisconsin. Standard, written, annual summaries, including counts of citations over time, comparisons with statewide averages, and descriptions of citations for the most serious violations, could assist the Board in providing oversight, ensuring quality of care, and identifying potential areas of concern.

Recommendation

We recommend the Department of Veterans Affairs enhance the usefulness of citation reports it prepares for the Board of Veterans Affairs by developing a standard written format that allows for comparison of citations over time and with other facilities in Wisconsin, identifies the homes’ most serious violations each year, and provides information on the status of corrective action plans.

Aid to Indigent Veterans Program ■

DVA's Aid to Indigent Veterans program subsidizes the cost of assisted living care, which is not covered by the Medical Assistance program. Only veterans are allowed to participate in the program. We reviewed the program's expenditures, enrollment trends, and eligibility policies.

Program Authority and Expenditures

The purpose of the Aid to Indigent Veterans program is defined in administrative code as providing financial assistance to cover the cost of assisted living care.

The 1993-95 Biennial Budget Act created the Veterans Assistance Program, which provides benefits such as housing, vocational assistance, and service provider referrals to veterans who are homeless, unemployed, or otherwise in need of services such as medical or dental care, education, employment, and transitional housing. Statutes require DVA to designate the assistance available under the program, and in administrative code the purpose of the Aid to Indigent Veterans program is defined as providing financial assistance to veterans who cannot afford the full cost of care at Union Grove's assisted living facility. Veterans qualify for financial assistance if they have "insufficient" monthly income and resources, as determined by DVA, to pay for the full cost of assisted living care.

The Aid to Indigent Veterans program was initially funded entirely with segregated funds from the Veterans Trust Fund. GPR funding began in the 2007-09 biennium, as shown in Table 35. The Legislature authorized funding from the Veterans Trust Fund to be replaced with \$208,700 in program revenue from the veterans homes' operating appropriation, which consists of federal funds,

state funds, and resident contributions, beginning in FY 2009-10, and authorized \$198,000 in GPR funding for each year of the 2009-11 biennium. Thus, the program’s budget authority almost doubled from \$208,700 in FY 2005-06 to \$406,700 in FY 2010-11.

Table 35

Aid to Indigent Veterans Program Budget Authority

Fiscal Year	Segregated Funds	GPR Funds	Total
2005-06	\$208,700	–	\$ 208,700
2006-07	208,700	–	208,700
2007-08	208,700	\$104,300	313,000
2008-09	208,700	208,700	417,400
Total	\$834,800	\$313,000	\$1,147,800

Aid to Indigent Veteran program expenditures totaled \$783,400 from FY 2005-06 through FY 2008-09.

However, the Aid to Indigent Veterans program has consistently spent less than its budget authority. As shown in Table 36, program expenditures from FY 2005-06 through FY 2008-09 totaled \$783,400, which is 68.3 percent of the program’s budget authority for that period.

Table 36

Aid to Indigent Veterans Program Expenditures¹

Fiscal Year	Segregated Fund Expenditures	GPR Expenditures	Total Expenditures
2005-06	\$ 98,300	–	\$ 98,300
2006-07	189,700	–	189,700
2007-08	87,600	\$104,300	191,900
2008-09	94,800	208,700	303,500
Total	\$470,400	\$313,000	\$783,400

¹ In FY 2004-05, DVA spent approximately \$1,300 in segregated funds before the program was formally established.

DVA suspended new enrollments in the Aid to Indigent Veterans program from July 2009 to April 2010.

DVA reported that the program did not use its full budget authority through FY 2008-09 because there was less demand for funds than had been projected. However, Union Grove staff projected in July 2009 that the program was at risk of exhausting its funding for FY 2009-10, and DVA officials suspended enrollment. These projections turned out to be inaccurate, and enrollment was reopened in April 2010.

In late 2009, DVA determined that the State's Family Care program, which uses federal and state Medical Assistance funds to pay for long-term care for the elderly and people with disabilities, could potentially help to cover some of the costs of care for eligible residents of Union Grove's assisted living facilities. Although some assisted living facility residents would likely meet Family Care's income eligibility requirements, DVA has not yet determined whether these residents would meet nonfinancial eligibility requirements based on their care needs.

Recommendation

We recommend the Department of Veterans Affairs work with the Department of Health Services to determine the feasibility of assisted living residents receiving financial support through the Family Care program, and report to the Board of Veterans Affairs by July 1, 2011, on its findings.

Given the State's current fiscal condition, it is uncertain whether the current level of GPR funding will continue to be available for the Aid to Indigent Veterans program. In addition, Union Grove's ongoing challenges in achieving solvency and DVA's plans to open a new veterans home in Chippewa Falls in 2012 will likely severely limit the availability of program revenue from the veterans homes' operating appropriation. DVA officials indicated they are pursuing strategies to reduce costs, including potentially recommending the closure of one of Union Grove's three assisted living facilities if deficits continue.

Enrollment Trends

During the five-year period we reviewed, the Aid to Indigent Veterans program served 51 individuals. As shown in Table 37, the program's enrollment increased from an average of 15 participants each month in FY 2005-06 to an average of 23 participants each month in FY 2008-09. During that period the average monthly subsidy nearly doubled, increasing from \$668 to \$1,096. Of the 40 participants enrolled for at least one month in FY 2008-09, 8 received average monthly subsidies of more than \$2,000, while 12 received average monthly subsidies of less than \$500.

Table 37

Aid to Indigent Veterans Program Participants and Subsidy Amounts

Fiscal Year	Average Monthly Participants	Average Monthly Subsidy
2005-06	15	\$ 668
2006-07	18	765
2007-08	20	826
2008-09	23	1,096

Because enrollment was suspended in July 2009, program enrollment declined to 16 residents in May 2010. As noted, enrollment was reopened in April 2010, and DVA reported in June 2010 that it expects to enroll 10 new residents by the end of FY 2010-11, for a projected total of 26 program participants.

Eligibility Policies

The policies for the Aid to Indigent Veterans program need clarification.

Although DVA has made progress in developing formal eligibility policies for the Aid to Indigent Veterans program, its current policies do not provide sufficient guidance for determining which assets should be counted or exempted from consideration in eligibility decisions, or when and under what circumstances divestment is permitted. Moreover, we identified a number of eligibility concerns when we reviewed participants' files.

Policy Development

When the program began in 2005, DVA had not developed written policies to guide eligibility or enrollment decisions. Instead, eligibility was based on Medical Assistance income and asset limits; the enrollment process relied on forms completed during the admission process; and participants were required to sign a memorandum of understanding that required them to complete an annual financial statement form provided by Union Grove, pay the full cost of care until their assets were reduced to \$2,000, and then turn over any income exceeding \$135 per month to help pay the cost of their care.

Formal program policies were not developed until approximately three years after the program's inception.

In May 2008, approximately three years after the program's inception, formal policies were developed. They included requirements that participants be eligible veterans as defined by s. 45.51, Wis. Stats. In addition, an annual financial statement continued to be required, but Union Grove did not routinely request updated financial statements before 2007. Statements were requested from 2007 through 2009, but staff did not always ensure they were received. We found that the available records were incomplete.

In July 2009, when program enrollment was suspended because of budget concerns, a team of DVA staff was assembled to review and revise existing policies. Documentation of that team's work and our own analysis indicate several problems, including:

- no explicit requirement that income and asset information submitted by participants be periodically verified by Union Grove staff;
- a lack of guidance on any asset limits, including what was included in the \$2,000 asset limit specified in the memorandum of understanding; which, if any, assets were exempt from it; and whether divestment of income or assets was allowable in any circumstances; and
- a lack of clarity about whether Medical Assistance income and asset guidelines should be applied if they have not been incorporated into written policies.

In January 2010, before the policy review team had completed its work, Union Grove began to:

- require that participants submit documentation with their annual financial statements, including itemized statements from financial institutions, investment companies, or brokers and copies of their federal and state income tax returns for the two most recent years; and
- prohibit program participants from transferring current income or assets to their spouses.

Revised policies were approved by the Board of Veterans Affairs in April 2010. They include one major programmatic change: effective in April 2010, prospective participants must have resided in one of Union Grove's assisted living facilities and paid their full cost of

care for at least 24 months before being admitted to the program. In addition, the revised policies continue to require that participants:

- be eligible veterans under s. 45.51, Wis. Stats.;
- have no more than \$2,000 in assets and turn over to the home any monthly income exceeding \$135; and
- submit annual financial statements and agree to an asset search by DVA staff before admission to the program and every six months thereafter.

DVA staff indicated they now review the most recent financial statement with each program participant and appropriate family members at six-month intervals and that asset searches verify the accuracy of the financial statement, compare it to previous statements for consistency, and include staff follow-up with financial institutions or, if necessary, the services of an outside asset search firm.

Since April 2010, applicants have been required to already be living in the home and paying their own cost of care for at least two years.

With the approval of the Board of Veterans Affairs, the new requirement was waived for 13 of the 18 veterans participating in the program in April 2010, who otherwise would not have been eligible for the Aid to Indigent Veterans program. Requiring program participants to be residents of a Union Grove assisted living facility who paid the full cost of their care for two years—which amounts to approximately \$80,000 to \$91,000 based on current rates—is likely to reduce DVA’s program costs, but it is also likely to affect Union Grove’s efforts to achieve full occupancy in its assisted living facilities. In December 2009, only 91 of 123 assisted living beds were filled.

Eligibility Assessments

Eligibility was not appropriately assessed for 4 of the program’s 20 participants as of December 2009.

To evaluate the effectiveness of the eligibility assessment practices in place in December 2009, we reviewed the files of all 20 participants in the Aid to Indigent Veterans program. In four instances, individuals appeared to have had more than \$2,000 in assets, either at the time of admission or in subsequent years:

- One participant initially reported approximately \$385,700 in an irrevocable trust. Union Grove considered these funds exempt from the \$2,000 assets limit and did not document whether the trust might have been established for asset divestment purposes. After we raised questions in June 2010, Union Grove conducted another

review and found that the trust was revocable and the assets therefore should be counted for eligibility purposes. Program funding for the individual has been discontinued, and Union Grove is seeking reimbursement of all program funds provided. The individual and his spouse are cooperating with these efforts.

- One participant's most recent financial statement indicated \$3,000 in checking accounts and \$170,000 in certificates of deposit. In addition, the participant had initially reported a house valued at \$160,000 and held in an irrevocable trust, which was not included on the most recent financial statement. Because the resident died in December 2009, Union Grove did not attempt to verify the information or seek reimbursement of program funds provided.
- Two participants reported assets that did not exceed the limit before they enrolled but did exceed the limit in subsequent years. Union Grove is addressing the excess assets with the residents.

In addition, we noted:

- In two cases, participants reported assets in excess of \$2,000 before they enrolled in the program but not on their most recent financial statements, which were completed three months and two years, respectively, after program enrollment. From available records, we could not determine when either participant's assets fell below \$2,000.
- One participant used proceeds from the sale of a home to give gifts to his grandchildren. The file did not include enough detail on the timing for us to determine whether the transaction might have violated divestment restrictions.
- 11 of the program's 20 participants in December 2009 had life insurance or burial assets that exceeded the \$2,000 asset limit. Their files did not contain sufficient documentation for us to determine whether those assets would have affected eligibility under Medical Assistance rules.

Recommendation

We recommend the Board of Veterans Affairs promulgate administrative rules for the Aid to Indigent Veterans program that:

- *establish clear eligibility requirements, including any type and amount of assets to be excluded from eligibility determinations;*
- *establish a policy on divestment, including requiring applicants to provide sufficient documentation for determining whether the timing and nature of any asset transfers, including the establishment of trusts, is allowable;*
- *clearly define any limits on the amounts and types of life insurance and burial assets that are exempt, and require applicants to provide sufficient documentation to assess them; and*
- *require Union Grove staff to verify financial information provided at the time of application to the assisted living facilities, and annually thereafter.*

■ ■ ■ ■

Purchasing and Contracting ■

DVA and other state agencies have been authorized by the Department of Administration (DOA) to independently make purchases of up to \$25,000. Purchases exceeding that amount are generally made by DOA. We reviewed a judgmental sample of purchases to assess the veterans homes' compliance with statutory and procedural requirements.

Goods and Services

The veterans homes purchased almost \$17.0 million in goods and services during FY 2008-09.

As shown in Table 38, the veterans homes purchased \$17.0 million in goods and services during FY 2008-09, including goods and services purchased with gifts and bequests. Just over one-third of the total was spent on medical and other supplies. King accounted for \$12.6 million, or 74.1 percent, of all goods and services purchased, while the remainder was spent by Union Grove.

Table 38

Veterans Homes Goods and Services Expenditures by Type
FY 2008-09

Type	Amount ¹	Percentage of Total
Medical and Other Supplies	\$ 5,817,800	34.3%
Professional and Contractual Services	2,946,600	17.4
Utilities	2,809,100	16.6
Food	1,939,600	11.4
Capital Assets	1,079,300	6.3
Maintenance and Repair	984,500	5.8
Insurance	824,800	4.9
Other ²	194,400	1.1
Staff Travel and Training	170,700	1.0
Telecommunications	101,100	0.6
Rent and Lease Payments	100,400	0.6
Total	\$16,968,300	100.0%

¹ Includes both operating and nonoperating expenditures.

² Includes printing, advertising, and postage.

As shown in Table 39, the largest payments to individual vendors in FY 2008-09 were for utilities, insurance, food, medication, and medical supplies and services.

Purchasing Requirements and Oversight

DOA specifies the type of purchasing procedures to be used, based on the prices of the goods or services.

DOA's purchasing policies generally require one of three procedures, based on the price of the goods or services purchased. As shown in Table 40, if the purchase price is \$5,000 or less, DOA allows state agencies to use their best judgment in selecting a vendor and does not require formal bids, proposals, or justifications. For purchases valued at more than \$5,000 through \$25,000, agencies must follow simplified bidding procedures to compare prices identified by staff, quotes on file, verbal quotes, or written bids for similar items from a minimum of three vendors. For purchases valued at more than \$25,000, most agencies must typically follow more comprehensive formal bidding procedures that include issuing a solicitation notice and making award information publicly available.

Table 39

Top Veterans Homes Vendors
FY 2008-09

Vendor	Goods and Services Purchased	Amount ¹
Department of Administration ²	Utilities, Insurance	\$2,100,500
Indianhead Foodservice Distributor	Food	1,611,200
Federal Department of Veterans Affairs	Medication, Medical Supplies and Services	1,087,500
Department of Health Services ³	Utilities	882,100
McKesson Corporation	Medical and Other Supplies	715,500
ThedaCare, Inc.	Medical Services	649,900
Wisconsin Public Service Corporation	Electricity	622,100
MJ Care, Inc.	Physical, Occupational, and Speech Therapy Services	524,300
Lakeview Pharmacy	Medication, Pharmacy Consulting	423,700
Department of Corrections	Furniture and Supplies	396,600
Total		\$9,013,400

¹ Includes both operating and nonoperating expenditures.

² Includes payments for utilities and Worker's Compensation, property, and liability insurances that are billed centrally by DOA.

³ Includes utility payments for facilities co-located with DHS facilities.

Table 40

DOA's Required Purchasing Procedures

Purchase Amount	Required Procedure
\$5,000 or Less	Best Judgment
More than \$5,000 through \$25,000	Simplified Bidding
More than \$25,000	Formal Bidding

As part of the statewide consolidation of purchasing services within DOA, 2005 Wisconsin Act 25 eliminated 35.35 FTE purchasing positions in 12 state agencies, including 2.0 FTE purchasing agents in DVA. Although DOA planned to enter into agreements with DVA and other agencies to more fully delineate purchasing authority and

responsibilities, it has not yet done so. In addition, DOA staff have no role in approving purchases between \$5,000 and \$25,000, as had been planned as part of the consolidation.

To assess compliance with state purchasing requirements, we analyzed the veterans homes' purchasing policies and procedures, as well as the documentation associated with a judgmental sample of \$5.8 million in purchases made in FY 2008-09 and FY 2009-10, including 31 purchases by King and 48 by Union Grove. We selected more purchases from Union Grove because our initial sample identified potential purchasing violations.

State purchasing requirements were not followed for 26 of the 79 purchases we reviewed.

As shown in Table 41, we found that state purchasing requirements were not followed in 32.9 percent of the 79 purchases we reviewed, and 22 of the 26 violations we identified occurred at Union Grove. We identified four types of purchasing violations:

- split purchasing, which circumvents either simplified or formal bidding requirements by dividing large purchases into separate, smaller purchases;
- misapplication of bidding procedures, which is processing purchases that are subject to either simplified or formal bidding requirements under procedures applicable to lower-cost purchases;
- inadequate bid solicitation, which is generally the solicitation of bids from vendors that had previously been determined to be unable to provide the requested good or service; and
- failure to rebid contracts, which is allowing contracts to lapse before they are rebid or allowing work to be performed outside the term of a contract.

Table 42 classifies each home's violations by type. Additional information on both homes' purchasing violations, including goods or services purchased, amounts paid, and violation type, is provided in Appendix 4.

Table 41

Violations of State Purchasing Requirements
FY 2008-09 and FY 2009-10

	Purchases Reviewed	Purchases Violating Requirements	Percentage with Violations
King	31	4	12.9%
Union Grove	48	22	45.8
Total	79	26	32.9

Table 42

Purchasing Violations by Type
FY 2008-09 and FY 2009-10

Type of Violation	King	Union Grove	Total ¹
Split Purchasing	0	14	14
Misapplication of Bidding Procedures	1	6	7
Inadequate Bid Solicitation	0	3	3
Failure to Rebid Contract	3	1	4
Total	4	24	28

¹ Two of the 26 purchases violated 2 purchasing requirements.

The dollar value of the purchases that violated purchasing rules ranged from \$1,000 to \$341,000, for purchases as varied as oxygen, electrical services, and milk and dairy products. For example:

- We identified ten split purchases with a total value of \$31,400 that Union Grove processed separately in FY 2008-09 and FY 2009-10 under best judgment procedures, but that should have been combined because the total amount exceeded \$5,000 in each year.
- In FY 2009-10, Union Grove staff did not obtain required pricing information for \$11,200 in kitchen equipment repairs and maintenance, but instead solicited prices from three vendors they had solicited for identical services in FY 2008-09. They

were aware that two of the three vendors did not provide these services. Consequently, vendor selection was predetermined and the bidding process was not meaningful.

- For the first four months of FY 2008-09, King purchased approximately \$94,400 in milk and dairy products from a vendor whose contract had expired in June 2008. Based on data provided by King, we estimate the home was charged \$18,000 more than had been permitted under the expired contract. If a formal bidding process had been conducted in a timely manner, these overpayments would not have been incurred and King would likely have reduced its expenditures by at least \$17,200, because the vendor that was eventually awarded the new contract in October 2008 underbid the former vendor by 24.1 percent, or \$51,600 annually.

Union Grove selected an electrical services vendor using flawed procurement procedures.

In addition, the procedures Union Grove used to select an electrical services vendor in FYs 2008-09 and 2009-10 are concerning for several reasons:

- no formal bidding process was used in either year, even though past annual expenditures exceeded \$25,000;
- two contacted vendors were excluded from consideration in both years based on service requirements that were not met by the chosen vendor; and
- in the second year, Union Grove staff documented contacting the same three vendors but immediately excluding the two that had been rejected the previous year for being unable to provide services.

Union Grove staff indicated that they are uncertain how two electrical services vendors were excluded based on erroneous service requirements.

Contract Administration

Veterans home staff are responsible for ensuring that goods and services meet contractual requirements.

Once contracts are in place, veterans home staff are responsible for ensuring that goods and services meet contractual requirements by monitoring their quality and properly reviewing invoices for compliance with contractual pricing agreements prior to payment.

Of the 17 veterans home staff we interviewed who are responsible for approving invoices, 5 told us that they do not typically verify the accuracy of charges against the pricing specified in contracts or verify that quantities delivered are accurately reflected on invoices. For example, DVA did not identify overcharges for milk and other dairy products purchased under contract until several months after they occurred, and King was unable to recover the funds it had overpaid because of the delay in identifying the error. When we compared the amounts charged on 65 invoices to prices specified in contractual agreements for the purchases sampled, we found problems with invoices for three purchases. In each case, the amount invoiced was either greater than the price specified in the contract or the invoice included charges unallowable under the contract. However, DVA eventually identified all three instances in which overcharges occurred, and our review indicates that repayments were received.

Veterans home staff use a number of techniques to review invoices, including reviewing invoice totals for deviations from historical trends. However, to reduce the risk of overcharges and position the homes to successfully recoup overpayments when they are identified, it is important that staff, at a minimum, establish periodic and timely checks of invoice charges to verify conformance with contractual pricing agreements.

Recommendation

We recommend the Department of Veterans Affairs ensure that each Wisconsin Veterans Home:

- *improve compliance with purchasing requirements, including ensuring proper bid solicitation and vendor selection, by providing additional training to staff involved in the procurement of goods and services;*
- *enhance contract monitoring efforts to ensure new contractual agreements have been finalized before existing contracts expire; and*
- *improve invoice review procedures to ensure that, at a minimum, a selection of invoices from all vendors is reviewed regularly and vendor charges are compared with prices enumerated in contractual agreements.*

Review of Selected Expenditures

In addition to assessing compliance with purchasing requirements, we conducted a detailed review of 239 expenditures made from FY 2004-05 through FY 2008-09. We reviewed these transactions to determine whether the purchases were necessary, appropriate, and included adequate supporting documentation. Our review was not random, but instead focused on specific types of expenditures for which there was a potential risk of abuse, such as for a purchase to be for personal use rather than a business purpose.

All 103 purchases we reviewed at Union Grove appeared to be necessary and appropriate.

All of the 103 purchases made by Union Grove appeared to be necessary and appropriate, and most of the transactions included sufficient documentation of business purpose. In one exception, Union Grove spent \$23,700 in June 2007 on 49 computers. Documentation maintained with the transactions did not specify why the computers were needed, but additional documentation supplied by central office staff showed that the computers had a legitimate business purpose and replaced older computers that staff had been using.

All 136 purchases we reviewed at King included sufficient documentation of a business purpose, but 3.7 percent included avoidable costs.

All 136 purchases made by King included sufficient documentation of a business purpose. However, we question five transactions, or 3.7 percent, because they included avoidable costs:

- four of the transactions were interest expenses totaling \$850 that were incurred because invoices had not been paid in a timely manner; and
- one transaction involved \$500 spent for 18 tickets to a Milwaukee Brewers baseball game that were not used. King staff mistakenly purchased tickets for a date that was not scheduled for a resident outing, and the error was not identified in time to obtain a refund.

■ ■ ■ ■

Future Considerations ■

Ambiguity in certain DVA policies and inadequate oversight have led to significant financial and program management issues at the veterans homes, including spending that has exceeded revenues in four of the past five fiscal years; inadequate rate setting rules and policies, as discussed in a letter report we issued in August 2010; inadequate policies for administration of the Aid to Indigent Veterans program; and violations of state purchasing rules associated with the procurement of goods and services. We also identified:

- concerns related to personnel management;
- other financial management issues; and
- a need for additional oversight by central office staff and the Board of Veterans Affairs.

Personnel Management

Although the homes are centrally administered through DVA's Division of Veterans Homes, the Commandant and financial and program management staff at each home work with substantial independence and are granted considerable discretion from DVA's central office staff in making hiring decisions, developing policies and procedures, managing contracts, and making purchases. However, each home's Commandant is appointed and serves at the pleasure of the DVA Secretary, who is appointed by the Board of Veterans Affairs and serves at the Board's pleasure. The DVA

Several administrative staffing changes have raised concerns about stability and continuity in agency leadership.

Secretary also appoints the Deputy Secretary, the Executive Assistant, and the Administrator of the Division of Veterans Homes. Other DVA staff are hired through the State's civil service process.

In recent years, several administrative staffing changes have raised concerns about stability and continuity in agency leadership. For example, during the five-year period we reviewed:

- Three different individuals served as DVA Secretary or Acting Secretary for periods ranging from 7 to 14 months because of military deployment and employment termination.
- Four different individuals were head of the Division of Veterans Homes for periods ranging from 5 to 38 months, and the position was also held by an individual who was deployed during that period.
- The Commandant position at Union Grove was vacant for 16 months between July 2007 and December 2008 and has been vacant since June 2010 because of employment termination.
- The Commandant position at King was vacant for 3 months in 2009 and has been vacant since December 2009 because of employment termination.

Personnel problems related to veterans home operations are long-standing. For example, in a letter we issued to DVA in March 1993, we noted that internal tensions between central office and veterans homes staff were "hampering the effective operation of the agency" and suggested that the Secretary at that time clarify for all managers and staff "that continuing bickering is inappropriate" and "insist on effective communications." Based on our interviews with current and former DVA staff, we believe inadequate communication and ineffective oversight persist within the agency, and they will need to be addressed if management is to improve.

Other Financial Management Issues

In July 2009, DVA's Acting Secretary requested that the Department of Justice (DOJ) investigate certain payments made by King in FY 2007-08 and FY 2008-09. In November 2009, DOJ determined that there had been no criminal wrongdoing by agency staff. However, we question the appropriateness of these payments from a financial management and compliance perspective.

In 2006, the King Commandant recommended to DVA's Secretary at that time that King make payments to Fox Valley Technical College for general operational support of a new classroom facility in Waupaca, in recognition of training the school provides to current and prospective King nursing staff. The Secretary directed that any payments made be directly related to training King's staff.

King made \$50,000 in unrestricted donations for Fox Valley Technical College that should have been designated for nurse training.

DVA's 2007-09 biennial budget submission, which was approved and included in 2007 Wisconsin Act 20, requested authority for DVA to pay Fox Valley Technical College \$50,000 during the biennium for nurse training services. King's Commandant subsequently authorized a \$25,000 payment directly to the school in December 2007, and another \$25,000 payment in July 2008 to the Waupaca Area Community Foundation, which conducts fund-raising for the school. However, the payments were designated for "annual support" without specific reference to nurse training. Therefore, the school considered them unrestricted funds that could be used for general construction and operating costs of the new facility at its Waupaca campus.

Section 20.903(1), Wis. Stats., states that no state agency may authorize the expenditure, directly or indirectly, of any money appropriated by law for a purpose other than that for which it was appropriated. Although DOJ found that the case did not warrant criminal prosecution and there is no indication that the donations were made for personal financial benefit, there is also no indication that the funds will be used for the specific purpose for which they were appropriated, which is nurse training. Instead, Fox Valley Technical College officials indicated they plan to use the funds during the 2010-11 school year to support staffing the mathematics and communications departments at the new facility.

DOJ also investigated actions related to supplies and services spending at King. In July 2009, staff of DVA's central office discovered that during FY 2008-09, \$700,000 of King's supplies and services budget for the next fiscal year had been spent without appropriate authorization. DVA indicated that the overspending occurred largely because of several large purchases made throughout the year, including a fire truck and related equipment totaling \$250,500; record storage systems for \$209,700; and a prescription drug packaging system for \$183,300.

Payments made by King appear to have violated statutory and budgetary intent.

Although these purchases complied with state purchasing rules, including obtaining the required authorization from the Governor in June 2008 for purchase of the fire truck, they had not been enumerated in King's FY 2008-09 supplies and services budget. King therefore delayed payments for \$700,000 in other purchases made in FY 2008-09 until FY 2009-10, which appears to violate s. 16.52(6), Wis. Stats., and a State Accounting Manual provision, which both state that purchases should be charged to the fiscal year in which

they are made. Both King staff and DVA central office staff failed to monitor the status of the home's budget to prevent overspending from occurring.

Consolidation of Services

Consolidated services have resulted in savings, but amounts cannot be independently verified.

In an attempt to contain costs, the two veterans homes have standardized and consolidated some services in recent years. For example, the prescription drug packaging system King purchased in February 2009, which was a factor in the home exceeding its FY 2008-09 supplies and services budget, also made it possible for King's on-site pharmacy to more easily sort and package residents' medications and also serve Union Grove, which had previously used a private pharmacy for allocating and packaging medications. DVA has indicated that consolidating pharmacy services resulted in cost savings of more than \$200,000 annually, but we were unable to independently verify those savings.

In addition, before the cook-chill food production system for both homes was instituted at King in February 2006, a December 2003 study by a private contractor concluded that such a system would save \$1.2 million in one-time capital equipment and renovation expenditures and \$1.3 million in annual operating costs compared to upgrading food production facilities at Union Grove. Further efficiencies have been created because the truck that transports food from King to Union Grove also transports the prescription drugs that are sorted and packaged at King. However, we were unable to independently verify the amount of cost savings as a result of this consolidation.

Elimination of the on-site fire department at King, and consolidation with the City of Waupaca's volunteer fire department located 3.7 miles from the home, has also been considered as a cost-savings measure. King's on-site fire department is staffed by 8.5 FTE security officers and 1.0 FTE security supervisor, as well as LTE security officers who worked the equivalent of 1.3 FTE positions in FY 2008-09. In addition to providing fire services, these staff provide fire alarm testing, building code inspection, and emergency response services, and King requires each security officer to be a certified firefighter, emergency medical first responder, and a fire warden. Salary and fringe benefit costs for fire and security staff in FY 2008-09 totaled \$650,300.

Security officers at King reported responding to 25 fire-related incidents in FY 2008-09.

Security officers at King reported responding frequently to requests for services, most of which were calls for assistance with safety and security issues; quelling disturbances caused by residents or other individuals; investigating missing property; responding to security

alarms; and escorting residents, staff, or visitors on the King grounds. Security officers reported responding to 25 fire-related incidents for which they used the fire truck, hoses, or other firefighting equipment in FY 2008-09.

King staff indicated that they contact nearby municipal emergency personnel for assistance when necessary, but that employing security officers on-site is important for resident safety. King's security officers are trained to respond to fires in multi-story buildings housing elderly residents and they are familiar with the building layouts and other important rescue information. Because of their proximity, they are also able to respond more quickly than municipal emergency responders, which staff believe is especially important in protecting the population at the home.

Although Union Grove has many similar issues, King is significantly larger, has more residents, more buildings, and older buildings. In addition, it may be difficult for King to shift responsibility for fire protection services to the City of Waupaca. The Waupaca fire chief indicated the Waupaca Volunteer Fire Department could not become the primary responder for fire incidents at King without approval from the Waupaca fire district's commissioners, and assuming such responsibility could require the addition of full-time staff, which would create additional costs for the city. However, costs could be diminished if a memorandum of understanding or cost-sharing agreement could be reached between the two parties.

Additional consolidation of services with other state agencies may be an option.

Union Grove, which is located 2.7 miles from the volunteer Kansasville Fire and Rescue Department, has never had a fire department on-site, and all of its security issues are reported to the Racine County Sheriff's Department. However, consolidation of some services with other state agencies may be an option. A study conducted by a private contractor and commissioned by DOA analyzed maintenance needs and potential service consolidation among DVA, DHS, and the Department of Corrections at the Southern Wisconsin Center. The 2008 study recommended that the agencies coordinate maintenance activities and staff. DVA staff indicated that since then the three agencies have reviewed the possibility of creating a central maintenance plan and manager, sharing staff with carpentry or electrical skills, and sharing equipment. However, no agreements have been reached to date. Complete coordination of all maintenance activities among the agencies may not be possible, but consolidating some operations could reduce some ongoing costs, including those associated with groundskeeping and other maintenance expenses.

Enhancing Oversight and Accountability

DVA has at various times sought to address some of the concerns identified during the course of our audit and has reported to the Board of Veterans Affairs since at least 2006 on its efforts to develop a comprehensive long-term financial plan for the homes. Although such a plan has not yet been completed, in November 2007 DVA contracted with a private contractor—Pathway Health Services, Inc.—to conduct a two-phase assessment of how the homes could achieve more effective and cost-efficient operations. The contractor was paid \$117,300 for completing the first phase in April 2009, an assessment of the homes' operational performance, including clinical standards and practices, provision of care, and organizational structure. In September 2009, DVA decided not to extend the contract to include a financial assessment, which had originally been contemplated as the second phase.

The operational performance assessment recommended:

- defining the role of the Administrator of the Division of Veterans Homes to include standardizing service delivery between the homes, establishing accountability measures and financial monitoring systems, and implementing a strategic planning process;
- developing and implementing standardized policies and procedures for all clinical and operational systems to ensure that all veterans home facilities meet or exceed standards of practice; and
- creating a position to oversee compliance with quality assurance and improvement activities.

Since January 2011, each home's Commandant and the Administrator of the Division of Veterans Homes are required to be licensed as nursing home administrators.

To help address some of these recommendations, the Board of Veterans Affairs amended ch. VA 1.11, Wis. Adm. Code, in June 2010 to require each home's Commandant and the Administrator of the Division of Veterans Homes to be licensed as nursing home administrators as of January 1, 2011, or to obtain licensure within 90 days of beginning employment. At the time this change occurred, Union Grove's Commandant and King's Deputy Commandant, who was Acting Commandant, were both licensed.

In addition, DVA initiated a strategic planning process in June 2010 and is drafting a plan to help guide the agency. DVA could consider using such a plan to improve oversight and accountability by defining the role of the Administrator of the Division of Veterans Homes, as recommended in the Pathway operational assessment,

and by initiating reviews of each home's financial and program management policies to ensure they are uniform whenever feasible. Because staff in the homes have substantial discretion in their operations, the Division Administrator and other central office staff must obtain complete and accurate information to ensure compliance with statutes, administrative rules, and DVA policies.

We have also made a number of recommendations to address the spending, staffing, purchasing, and accountability issues at the veterans homes. Legislative oversight could help ensure that DVA develops realistic, timely, and appropriate financial and program management procedures to better serve Wisconsin veterans residing in the veterans homes.

Recommendation

We recommend the Department of Veterans Affairs report to the Joint Legislative Audit Committee by July 1, 2011, on the specific steps it has taken to respond to our recommendations to improve financial and program management at the Wisconsin Veterans Homes.

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Appendix 1

**Primary Services Provided by the
Wisconsin Veterans Homes**

Service	Skilled Nursing Facilities	Assisted Living Facilities
Nursing	✓	✓
Physician	✓	
Pharmacy	✓	
Dietary	✓	✓
Dental	✓	
Social Work	✓	✓
Rehabilitative	✓	
Activities Programming	✓	✓
Laboratory	✓	
Radiology and Other Diagnostic Services	✓	
Transportation	✓	✓
Housekeeping	✓	✓
Religious	✓	✓
Barber/Beautician	✓	
Audiology	✓	
Optometry	✓	
Podiatry	✓	
Urology	✓	

Appendix 2

Activities Scheduled for Veterans Home Residents
December 2009

Activity	Percentage of Total	
	King	Union Grove
Social	24.8%	9.1%
Games	20.7	26.0
Religious	12.5	9.5
Exercise and Sports	10.0	11.3
Music	7.2	11.3
Crafts and Cooking	5.6	8.8
Holiday Events	4.2	4.6
Outings	4.2	6.4
Movies	2.9	1.2
Meetings	2.1	3.0
Other	5.8	8.8
Total	100.0%	100.0%

Appendix 3

Debt Service Schedule

As of May 2010

Fiscal Year	General Purpose Revenue	Program Revenue	Total
2010-11	\$1,421,800	\$1,043,000	\$2,464,800
2011-12	1,726,900	1,142,900	2,869,800
2012-13	1,600,500	1,148,900	2,749,400
2013-14	1,136,900	1,143,500	2,280,400
2014-15	1,115,200	1,105,100	2,220,300
2015-16	1,066,500	1,106,000	2,172,500
2016-17	723,600	1,112,100	1,835,700
2017-18	638,400	1,113,200	1,751,600
2018-19	605,900	1,120,400	1,726,300
2019-20	549,100	1,114,600	1,663,700
2020-21	441,400	1,105,700	1,547,100
2021-22	360,000	1,048,300	1,408,300
2022-23	275,200	981,600	1,256,800
2023-24	185,900	812,600	998,500
2024-25	169,800	764,600	934,400
2025-26	118,200	525,800	644,000
2026-27	78,300	287,500	365,800
2027-28	49,300	32,000	81,300
2028-29	42,400	0	42,400
2029-30	18,900	0	18,900

Appendix 4

Veterans Homes State Purchasing Violations

FY 2008-09 and FY 2009-10

Goods or Service	Violation Occurred	Violation Type	Amount Paid
King			
Milk and Dairy Products	FY 2008-09	Failure to Rebid Contract	\$ 94,400
Physical, Occupational, and Speech Therapy Services	FY 2008-09	Failure to Rebid Contract	72,800
Electrical Services	FY 2008-09	Misapplication of Bidding Procedures	20,800
Physical, Occupational, and Speech Therapy Services	FY 2009-10	Failure to Rebid Contract	109,300
Subtotal			297,300
Union Grove			
Electrical Services	FY 2008-09	Misapplication of Bidding Procedures, Inadequate Bid Solicitation	41,000
Oxygen and Oxygen Equipment	FY 2008-09	Misapplication of Bidding Procedures	31,500
Fire Safety Inspection	FY 2008-09	Split Purchasing	5,000
Fire Safety Inspection	FY 2008-09	Split Purchasing	4,300
Fire Safety Inspection	FY 2008-09	Split Purchasing	4,200
Hardware and Locksmith Services	FY 2008-09	Split Purchasing	4,000
Fire Safety Inspection	FY 2008-09	Split Purchasing	3,700
Hardware and Locksmith Services	FY 2008-09	Split Purchasing	3,600
Hardware and Locksmith Services	FY 2008-09	Split Purchasing	3,000
Physical, Occupational, and Speech Therapy Services	FY 2009-10	Failure to Rebid Contract	341,000
Electrical Services	FY 2009-10	Misapplication of Bidding Procedures, Inadequate Bid Solicitation	25,400
Oxygen and Oxygen Equipment	FY 2009-10	Misapplication of Bidding Procedures	18,900
Nutritional Supplements	FY 2009-10	Misapplication of Bidding Procedures	15,700
Kitchen Equipment Maintenance and Repairs	FY 2009-10	Inadequate Bid Solicitation	11,200
Laboratory Services	FY 2009-10	Misapplication of Bidding Procedures	8,500
Hardware and Locksmith Services	FY 2009-10	Split Purchasing	5,600
Hardware and Locksmith Services	FY 2009-10	Split Purchasing	4,900
Hardware and Locksmith Services	FY 2009-10	Split Purchasing	3,500
Hardware and Locksmith Services	FY 2009-10	Split Purchasing	2,900
Hardware and Locksmith Services	FY 2009-10	Split Purchasing	1,700
Hardware and Locksmith Services	FY 2009-10	Split Purchasing	1,200
Hardware and Locksmith Services	FY 2009-10	Split Purchasing	1,000
Subtotal			541,800
Total			\$839,100

Scott Walker, Governor
Kenneth B. Black, Secretary



**STATE OF WISCONSIN
DEPARTMENT OF VETERANS AFFAIRS**

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February 2, 2011

Ms. Janice Mueller
State Auditor
State of Wisconsin Legislative Audit Bureau
22 East Mifflin Street, Suite 500
Madison, WI 53703

Dear Ms. Mueller:

Thank you for the opportunity to respond to the Legislative Audit Bureau's comprehensive evaluation of the Wisconsin Veterans Homes.

As your report indicates, the Wisconsin Department of Veterans Affairs (WDVA) faces significant financial and programmatic challenges with respect to operation of its Veterans Homes. WDVA has been working proactively to address the issues described in the evaluation and we welcome your report's findings in that they underscore the importance of many of our recent accomplishments and the changes already taking place within our Department.

We would respectfully call your attention to the following accomplishments and meaningful steps that will continue to enhance oversight and accountability; identify and correct any remaining operational issues; and effectively plan for the financial stability of the Veterans Homes.

Leadership

WDVA has experienced significant changes in leadership, however, we have embraced these changes as an opportunity to strengthen the qualifications and caliber of personnel throughout the organization and the organization as a whole is stronger as a result.

Development of a Strategic Plan

In July 2010, the Department presented to the veterans' community its strategic plan for the period 2010-2015. As important as the goals and objectives contained therein are the core values that we, as an agency, seek to embody, including integrity, accountability, efficiency and innovation.

Implementation of a Risk Assessment Program

Recognizing that risk assessment is critical to the achievement of agency goals and governance responsibilities, the Department adopted a risk assessment policy in July 2010, that integrates risk assessment practices in decision-making, including proper accountability, evaluation, performance monitoring and reporting, and improvement of planning and practices.

Standardization of Policies and Service Delivery

Veterans Homes' staff and representatives from central office have undertaken efforts to standardize policies and procedures in a number of areas, including:

- Processing and collection of accounts receivable;
- Admissions to the Veterans Homes;
- Quarterly budget reviews; and
- Service Delivery.

Further efforts to develop and implement standardized policies, procedures, and protocols across the Veterans Homes, which is essential to achieving overall clinical and business outcomes in today's health care environment, will be supported by the reallocation of resources as outlined in the Department's reorganization plan.

Development of Reorganization Plan

The Department has developed a reorganization plan that maps out specific steps that will enable the entire Department to: operate more efficiently; utilize the Department's workforce more productively; and enhance oversight and accountability. The reorganization plan supports the WDVA's Strategic Plan goal to:

- Deliver quality programs and services that meet the needs of the veterans community;
- Allocate personnel resources to meet program area needs; and
- Evaluate, develop and deploy appropriate resources and ensure their optimal use.

In addition to meeting the goals and objectives enumerated above, implementation of recommendations included in the reorganization plan will support the Veterans Homes efforts to:

- Standardize financial, programmatic and clinical service delivery;
- Implement recommendations included in the Operational Assessment Report prepared for the Wisconsin Department of Veterans Affairs by Pathway Health Services, Inc. and released in April 2009; and
- Establish cost-savings through operating efficiencies.

Completion of Feasibility Studies

The Department has recently completed an evaluation of the feasibility of Medicare certification for the Veterans Home at King, and will be providing the same to the Board of Veterans Affairs at its February 2011 meeting. An evaluation of the feasibility of implementing the Family Care program in the Assisted Living facilities at the Veterans Home at Union Grove, which was planned prior to the issuance of your report, will be undertaken in the immediate future and reported to the Board as recommended.

Development of Comprehensive Long-Term Financial Plans

The Department has made a commitment to the Board of Veterans Affairs and the veterans' community to develop long-term comprehensive financial plans for the Veterans Homes. The first step in completing those plans was the operational assessment of the Veterans Homes and the next will be implementation of recommendations resulting from the same, most of which are encompassed in the reorganization plan. In between, the Department has prepared a Five-Year Business Plan for Skilled Nursing Care for the Chippewa Falls Veterans Home, which is scheduled to open during the 2011-13 biennium. In developing the business

plan, the Department took into consideration lessons learned from the start-up of the skilled nursing facility at Union Grove. Further, the future comprehensive financial plan will incorporate the demand analysis for skilled nursing that the Department briefed to the Board of Veterans Affairs at its December 2010 meeting.

Delivery of Quality Care and Services to Members

Consistent with the findings of your evaluation that the Veterans Homes have met or exceeded nurse staffing requirements established by state and federal law and generally were issued fewer citations by state and federal regulators than the statewide average for all nursing homes, the Homes have achieved overall ratings of four or five stars from the Centers for Medicare and Medicaid Services (CMS). CMS's five star quality rating is based on health inspection results, nursing home staffing and quality measures, with four out of five stars being recognized as "above average" and five out of five stars as "much above average". The overall rating of each of the Department's separately licensed skilled nursing homes is shown in Table 1.

Table 1
Five Star Quality Rating

Nursing Home Name	Overall Rating
WI Veterans Home-Boland Hall	★★★★★ 5 out of 5 stars
WI Veterans Home-Stordock Hall	★★★★★ 5 out of 5 stars
WI Veterans Home-Olson Hall	★★★★☆ 4 out of 5 stars
WI Veterans Home-MacArthur Hall	★★★★☆ 4 out of 5 stars
WI Veterans Home-Ainsworth Hall	★★★★☆ 4 out of 5 stars

Source: www.medicare.gov/NHCompare, February 2, 2011

In summary, the findings of your review confirm issues we are aware of and are working proactively to address. Your recommendations reinforce the importance of several restructuring recommendations presented to the Wisconsin Board of Veterans Affairs on February 1, 2011 as part of our proposed Reorganization Plan.

We appreciate the opportunity to have our response included in the final report, and we look forward to both working collaboratively with the Board of Veterans Affairs and reporting to the Legislative Audit Committee by July 1, 2011, on the results of our overtime analysis and the specific steps we have taken in strengthening the financial viability and effective operation of the Wisconsin Veterans Homes.

Sincerely,
DEPARTMENT OF VETERANS AFFAIRS



Kenneth B. Black
Secretary