



# Report of the Vermont State Auditor

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November 21, 2005

## VERMONT VETERANS' HOME

Opportunities Exist to Better  
Serve Vermont Veterans

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**Randolph D. Brock**  
**Vermont State Auditor**  
**Rpt. No. 05-04**

### **Mission Statement**

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**RANDOLPH D. BROCK  
STATE AUDITOR**



**STATE OF VERMONT  
OFFICE OF THE STATE AUDITOR**

November 21, 2005

The Honorable James H. Douglas  
Governor, State of Vermont  
109 State Street  
Montpelier, VT 05609-0101

Dear Governor Douglas,

Earlier this year, after allegations of financial improprieties on the part of management, you asked me to conduct an audit of the Vermont Veterans' Home in Bennington.

Our audit is now complete and this report details our findings and recommendations, which are summarized in the Highlights section on page one.

**The waste and abuse of public funds that we were charged with reviewing appears to have been limited.** The Veterans' Home now has an annual budget of approximately \$16 million; this report details abuse totaling approximately \$30,000 over five years related to travel and expense reimbursements. These improprieties certainly should not have occurred, but they are not material to the Home's overall finances as they represent but a small fraction of the Home's expenditures. Other allegations relating to improper use of overtime and a questionable worker's compensation claim are discussed in a confidential Appendix I. These allegations, all of which relate to individual actions by persons no longer employed at the Home, are exempt from public disclosure under 3 V.S.A. §317(7) as they relate to personnel issues. These matters have been forwarded to the Department of Human Resources and the Department of Labor and Industry for such action as they may deem appropriate.

Although our audit generally covered only financial and governance issues, all indications are that **the quality of healthcare and social services provided to residents has improved in recent years.** Recent comprehensive inspections by State and Federal inspectors typically have noted only minor deficiencies.

As we reviewed various financial aspects of the Home's operations, it became evident that **the Home has clear opportunities to reduce expenses and improve efficiency of its day-to-day activities.**

As you know, the Vermont Veterans' Home is the largest nursing home in the State. It currently has the second highest Medicaid reimbursement rate, and one of the lowest "case-mix" scores, a comprehensive assessment which evaluates the overall care needs of the residents. Though licensed for 184 beds, the Home typically has an average of 20 to 25 vacant beds each month. **Gains in operational efficiencies will save taxpayers many dollars in the long run.**

This report also suggests steps that the Board of Trustees can take to better leverage the skills and experience of its members as the entity charged with ultimate responsibility for operating the Home. Indeed, **the Board of Trustees has adopted new policies on purchasing and travel expense reimbursement at the Home in 2005.** It is also considering a new comprehensive whistleblower, non-retaliation policy. Clearly, these are positive steps toward increased accountability, but more can be done.

This report recommends that the Trustees create a formal Audit Committee, adopt a number of "best practice" procedures at the Board level, and institute procedures and policies that will give employees confidence to come forward with their concerns. The goal is to improve the climate of integrity and compliance at the Home.

It is probably a surprise to most citizens that **the Veterans' Home serves only about 20 percent of those Vermont veterans currently residing in nursing homes.** Because no one on the State or Federal government level tracks the number of veterans in all of the State's 40 Medicaid-eligible nursing homes, we conducted a telephone survey to determine this number. As of July, 2005, there were 451 veterans in these 40 Medicaid-eligible settings. This includes 89 in the Veterans' Home in Bennington, the vast majority (82 percent) hailing from Bennington, Rutland and Windham Counties. The remaining 362 veterans are living in other nursing homes around the State.

We believe **there may be exciting opportunities to serve these veterans better and at the same time, potentially generate millions of dollars in savings to Vermont taxpayers.**

For example, beginning on October 1, 2005 the Department of Aging and Independent Living (DAIL) has assumed the responsibility for determining Medicaid eligibility for all new admissions to Medicaid-eligible nursing homes. We are recommending that DAIL staff involved in this process pay increased attention to the range of medical, pharmaceutical and long-term care benefits available from the U.S. Department of Veterans Affairs (VA). **Helping more Vermont veterans gain access to their federal benefits could help the Vermont Medicaid program save money while providing more support to Vermont veterans.**

**Further, eligible veterans at the Home in Bennington can receive a VA *per diem* payment of \$59.36 to help cover the cost of their care.** About 135 residents at the Veterans' Home today are eligible for this payment, which results in nearly \$3 million in revenue annually for the Home. The Home is theoretically eligible for 184 *per diem* payments – one for each licensed nursing home bed at the Home – but not every resident qualifies.

However, it may be possible **for additional eligible veterans in Northern and Central Vermont** to receive the VA *per diem* stipend if Federal and State standards can be met.

For example, by cooperating with other nursing homes in Central and Northern Vermont, the State could designate a building wing or separate story of an existing nursing home as a Vermont Veterans' Home. Thus, veterans residing in the new satellite home could be eligible for increased VA support from a *per diem* stipend payment. VA funds could help veterans pay for their care, increase support for veterans-related programs, and reduce State costs. VA regulations allow additional *per diem* payments if a second facility is located at least 110 miles from existing State Veterans' Home and where there is a population of veterans to serve.

For every 10 additional Vermont veterans who received a VA stipend of \$59.36 per day, it would mean \$216,664 in additional funding per year. **If 50 more Vermont veterans could qualify, it would mean \$1.1 million in additional federal support per year.**

This is a complex area which needs further study, but preliminary discussions with State and Federal administrators are encouraging at this point.

**The long-term care challenge for Vermont veterans has many aspects.** One is the increasing trend of veterans to demand – as other older Vermonters do – healthcare and nursing home options that are close to home and family. Another is the high cost of institutional care versus long-term care provided at home or in a community-based setting. Yet another is the high cost of the Veterans' Home, its continuing vacancies, and the fact that a significant number of out-of-state admissions convert to Vermont Medicaid. Indeed, some 39 percent of Vermont Veterans' Home admissions entered the Home from addresses outside the State of Vermont during the 2002-2004 period. Under Vermont's new Long-Term Medicaid Waiver agreement with the Federal government, Medicaid funds provided to out-of-state conversion cases will mean less money available each year for Vermonters.

Given these realities, **I recommend that you consider appointing a Commission on Long-Term Care for Vermont Veterans**, or an equivalent body, which could review the range of opportunities that exist to improve the care, coordination and financing of long-term care for all Vermont veterans and which could make recommendations to you and the General Assembly for action.

To conclude, I believe that **there are opportunities to control costs, prevent future abuses, improve Board of Trustee accountability, and better serve Vermont veterans for whom residency and care in Bennington is not an option.**

Sincerely,

A handwritten signature in black ink, appearing to read "Randolph D. Brock". The signature is stylized and cursive, with a large initial "R" and "B".

Randolph D. Brock  
State Auditor

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## Abbreviations

AHS	Agency of Human Services
BGS	Department of Buildings and General Services
CEO	Chief Executive Officer
COSO	Committee of Sponsoring Organizations
DAIL	Department of Aging and Independent Living
DII	Department of Information & Innovation
DLI	Department of Labor and Industry
DLP	Division of Licensing and Protection
DRS	Division of Rate Setting
FY	Fiscal Year
GAO	Government Accountability Office
SAO	State Auditor’s Office
VA	Department of Veterans Affairs
VSEA	Vermont State Employees Association
VVH	Vermont Veterans’ Home

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# Highlights: Report of the Vermont State Auditor

## VERMONT VETERANS' HOME: Opportunities Exist to Better Serve Vermont Veterans

(November 2005, Rpt. No. 05-04)

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### Why We Did This Audit

At the request of Governor James Douglas, we sought to determine the extent of any misuse of public funds or assets at the Vermont Veterans' Home.

We also wanted to assess the efficiency and effectiveness of expenditures at the Home and the way the Home's Board of Trustees provides oversight and promotes a climate of compliance and integrity.

### What We Recommend

Because only about 20 percent of Vermont veterans in nursing homes currently reside at the Veterans' Home in Bennington, we recommend that the Governor consider appointing a group to explore ways to better serve veterans who need long-term care close to their homes and families.

We recommend that the Veterans' Home initiate a comprehensive review of operating cost areas with an eye toward identifying and correcting inefficient or wasteful practices.

Further, we recommend that the Board of Trustees increase efforts to adopt a "best practices" approach to governance. "Best practices" would include further board training and evaluation, creation of a formal audit committee, improving communications between the Board and employees, and adopting a strong non-retaliation policy for whistleblowers. In addition, the Home and various State departments it works with on a day-to-day basis should document and approve the responsibilities of all parties to improve cooperation.

### Findings

1. Against a background of steadily improving care and the creation of new programs at the Home, there was abuse of public funds at the Vermont Veterans' Home. However, the amount involved was limited. The State has estimated a total of \$26,707 in improper reimbursements or payments to the former Commandant during Fiscal Years 2003, 2004, and 2005. This Office determined an additional \$1,361 of improper reimbursements during Fiscal Years 2001 and 2002. The total is \$28,068. The former Commandant previously reimbursed the State \$1,271 and had \$6,900 in severance pay withheld, a total of \$8,171. There is a balance of \$19,896 which the State is seeking to recover. In other matters, a bonus of \$1,000 paid to an employee was based on false information. Some hardware equipment purchased by the Home is unaccounted for. Funds of nursing home residents are secure, but reconciliation of their accounts needs improvements. Poor management has likely contributed to a backlog of maintenance items. We found no evidence of improper relationships between vendors and the Home's managers.
2. The Board of Trustees is appointed by the Governor and consists of 20 members, 15 of whom must be veterans. The Board has taken many positive steps to address deficiencies raised in a 1999 report by this Office. The Board has quality members, has developed a strategic plan, financial benchmarking, and has adopted numerous policies to improve the operation of the Home. Still, we noted weaknesses in the Board's oversight of the quality and effectiveness of management's risk management activities. The Board lacks a formal audit committee, did not ask hard questions of management at its meetings, and did not develop effective communication lines to employees who might have knowledge of improper practices.
3. Due to its labor contract, the age and design of the Home's complex, and other factors, the Veterans' Home is one of the most expensive nursing homes in the State. We noted a range of cost areas where improvements in efficiency and cost control could save taxpayers money in the long run. These include consultant, overtime, dietary, purchasing, maintenance, accounts receivable, and business office expenditures.
4. There are approximately 450 veterans residing in the State's 40 Medicaid-eligible nursing homes – but only 19.7 percent of them reside at the Veterans' Home in Bennington. More than 80 percent of Vermont veterans at the Home are from three counties – Rutland, Bennington and Windham. From discussions with State and VA nursing home program managers, we learned that possibilities exist to create satellite Veterans' Homes in Northern or Central Vermont to serve veterans and to access federal VA per diem payments to help with their care.

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## Background

The Vermont Veterans' Home (VVH) is licensed by the Vermont Agency of Human Services to operate a nursing home with 184 skilled nursing beds, and to operate a Residential Care Home or "Domiciliary" with 24 beds.

The Home was founded in the 1880s.<sup>1</sup> The Vermont General Assembly incorporated the "Trustees of the Soldiers' Home in Vermont" by Act No. 180 of the 1884 legislative session.

The Home's stated purpose is to "provide the highest quality of medical and nursing care to eligible veterans and their eligible spouses and parents. The assistance to residents includes special emphasis on dementia care, pain management, wound healing, and palliative care."<sup>2</sup>

The Home provides care to veterans, spouses of veterans, and Gold Star Mothers of veterans. In July, there were 163 residents at the Home, 102 from Vermont, 89 of those veterans, 12 spouses, and one Gold Star Mother.

The Home is one of 40 Medicaid-eligible nursing homes in the State. Outside of the Vermont Veterans' Home, the other 39 Medicaid-eligible nursing homes had 362 residents who were veterans, according to a July 2005 survey by this Office. This includes 17 veterans who are being provided nursing home care in Vermont under contract with the regional Department of Veterans Affairs medical group in White River Junction.

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<sup>1</sup> State veterans' homes originated in the post-Civil War era when the federal government established homes for disabled soldiers in need of hospital and domiciliary care. The federal government could not meet the demand for services, and care was limited to veterans who had served with the Union Army. As a result, states established State homes for the care of soldiers at State expense. The Congress enacted legislation in 1888 authorizing the payment of \$100 per year to help defray state tax burdens. According to the Government Accountability Office (GAO) there are approximately 110 state veterans' nursing homes located in 44 states and Puerto Rico receiving VA payments to provide care.

<sup>2</sup> *Mission Statement*, reported in Strategic Plan, June, 2004, p. 3.

Tables 1 and 2 show, as of July, 2005, the profile of residents at the Home.

**Table 1: State of Origin of the Residents of VVH, as of July 2005**

<b>State of Origin</b>	<b>Number</b>	<b>% of Total Residents</b>
<b>Alabama</b>	<b>1</b>	<b>1%</b>
<b>Connecticut</b>	<b>4</b>	<b>2%</b>
<b>Florida</b>	<b>3</b>	<b>2%</b>
<b>Georgia</b>	<b>1</b>	<b>1%</b>
<b>Massachusetts</b>	<b>9</b>	<b>6%</b>
<b>Maine</b>	<b>1</b>	<b>1%</b>
<b>Michigan</b>	<b>1</b>	<b>1%</b>
<b>New Hampshire</b>	<b>6</b>	<b>4%</b>
<b>New York</b>	<b>32</b>	<b>20%</b>
<b>Texas</b>	<b>1</b>	<b>1%</b>
<b>Virginia</b>	<b>1</b>	<b>1%</b>
<b>Vermont</b>	<b>102</b>	<b>63%</b>
<b>Canada</b>	<b>1</b>	<b>1%</b>
<b>Total</b>	<b>163</b>	<b>100%</b>

*Percentages may not add to 100 due to rounding.*

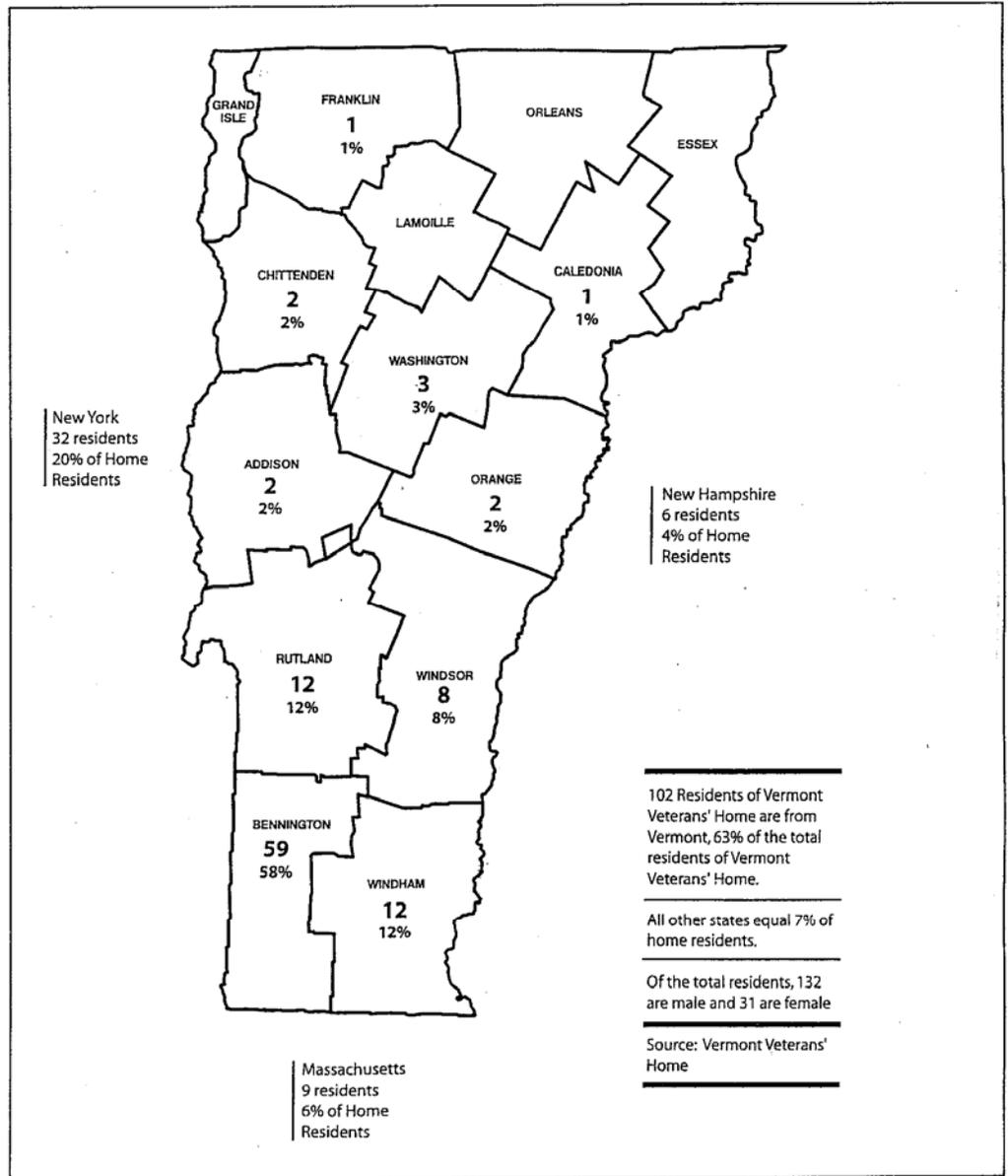
**Table 2: County of Origin of Vermont VVH Residents, as of July 2005**

<b>County of Origin</b>	<b>Number</b>	<b>% of Total Residents</b>
<b>Addison</b>	<b>2</b>	<b>2%</b>
<b>Bennington</b>	<b>59</b>	<b>58%</b>
<b>Caledonia</b>	<b>1</b>	<b>1%</b>
<b>Chittenden</b>	<b>2</b>	<b>2%</b>
<b>Essex</b>	<b>0</b>	<b>0%</b>
<b>Franklin</b>	<b>1</b>	<b>1%</b>
<b>Grand Isle</b>	<b>0</b>	<b>0%</b>
<b>Lamoille</b>	<b>0</b>	<b>0%</b>
<b>Orleans</b>	<b>0</b>	<b>0%</b>
<b>Orange</b>	<b>2</b>	<b>2%</b>
<b>Rutland</b>	<b>12</b>	<b>12%</b>
<b>Washington</b>	<b>3</b>	<b>3%</b>
<b>Windham</b>	<b>12</b>	<b>12%</b>
<b>Windsor</b>	<b>8</b>	<b>8%</b>
<b>Total</b>	<b>102</b>	<b>100%</b>

*Percentages may not add to 100 due to rounding.*

See figure 1 for an illustration of the counties where Vermont residents of the Vermont Veterans' Home are from.

**Figure 1: 102 Vermont Residents at the Vermont Veterans' Home and Where They Are From (as of July 31, 2005)**



Of the 163 nursing home residents, 132 are men and 31 are women.

Budget

Table 3 illustrates the changes in VVH total resident care days, total expenses, and total revenues over the past several years.

**Table 3: Changes in VVH Total Resident Care Days, Operating Expenses, and Revenue Between Fiscal Years 2000-2005**

State Fiscal Year	Total Resident Care Days	% increase over prior year	Total Operating Expenses	Operating Expenses % increase over prior year	Expenses Per Resident Care Day	% increase over prior year	Total Revenues	Total Revenues % increase over prior year
2005	60,495	-3%	14,978,993	4.8%	\$248	7.9%	16,585,793	14.1%
2004	62,286	9%	14,294,877	7.7%	\$230	-0.9%	14,535,259	7.7%
2003	57,326	17%	13,270,620	11.0%	\$231	-4.9%	13,495,333	26.9%
2002	49,129	-11%	11,959,362	15.9%	\$243	30.1%	10,637,157	-1.7%
2001	55,140	3%	10,319,659	6.7%	\$187	3.6%	10,825,695	19.7%
2000	53,571		9,673,971		\$181		9,044,650	
Source: SAO calculations from Audited Financial Statements								

The Vermont Veterans' Home provided 60,495 days of resident care and had \$14.9 million in expenses for the Fiscal Year (FY) ending June 30, 2005. (Table 4 provides additional details of these expenditures.)

**Table 4: VVH Operating Expenses for Fiscal Year 2005**

Expense type	Total
Administrative	\$4,381,693
Property related	1,119,945
Plant operations	928,077
Dietary	1,089,193
Laundry and linens	261,430
Housekeeping	413,753
Nursing	5,162,213
Other services	1,622,689
<b>Total operating expenses</b>	<b>\$14,978,993</b>

Source: VVH financial statements for year ended June 30, 2005. (See appendix III for excerpts from the FY 2005 VVH audited financial statements.)

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Table 5 provides information on VVH's operating revenues in fiscal year 2005.

**Table 5: Sources of VVH Fiscal Year 2005 Operating Revenue**

<b>Revenue Source</b>	<b>Total</b>
Vermont and New York Medicaid <sup>3</sup> (Federal funds with a General Fund match of approximately 38%)	\$8,463,130
Private Patients	1,983,258
Agency patients (Residential or "Domiciliary" Care Applied Income)	200,689
U.S. Dept. of Veterans Affairs (VA) <sup>4</sup> ( <i>per diem</i> payment for each qualified veteran to be used for his/her care)	1,286,168
Medicare (Coverage under Medicare part A for qualifying skilled residents with Medicare coverage and Medicare part B payments for therapies)	1,613,996
Contractual Allowances <sup>5</sup>	462,322
Vermont General Fund (Transferred to Office of Vermont Health Access to facilitate the Medicaid rate adjustment)	0
<b>Total Operating Revenues</b>	<b>\$14,009,563</b>

Source: VVH Financial Statements for year ended June 30, 2005

The VVH has basically two types of expenses: personal services (wages, benefits and contracted services) which represent approximately 80 percent of expenditures, and costs of operations representing 20 percent.

<sup>3</sup> Does not include Medicaid prescription drug charges as these are paid directly to local pharmacies requesting reimbursement from Medicaid.

<sup>4</sup> The daily amount paid per veteran in recognized State Veterans' homes is the per diem rate established by 38 U.S.C. 1741, for nursing home care. At the time of this report, the rates paid by the U.S. Department of Veterans Affairs (VA) are \$59.36 per day for nursing home care, and \$27.44 per day for domiciliary care. Approximately 135 individuals at the Home are eligible for the per diem payment, which is billed monthly to the VA in the aggregate and applied to the Home's operating budget.

<sup>5</sup> Under the Medicaid and Medicare programs, Vermont Veterans home is paid for the reasonable cost of services rendered as determined through the provisions of formulas used to establish prospective per diem rates. The differences between the established billing rates of the VVH and the amounts recoverable from the programs are shown as contractual allowances. They also include contractual allowances also include amounts of agency (State-supported) patient revenues not provided by the VA per diem or applied income sources. The State contribution for these patients is included in State appropriations. (Financial Statements, FY 2005, p. 10).

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Below is the Legislative appropriation for the Home for the fiscal year ending June 30, 2006.

**FY 2006 Appropriation by Vermont Legislature  
Vermont Veterans' home - care and support services**

Personal services	12,833,472
Operating expenses	3,128,718
<b>Total</b>	<b>15,962,190</b>

**Source of funds**

General fund	912,495
Special funds	10,239,126
Federal funds	4,810,569
<b>Total</b>	<b>15,962,190</b>

(a) Notwithstanding 32 V.S.A. § 706(a)(1), the Vermont Veterans' home may transfer, with the approval of the secretary of administration, funds up to an amount equal to the general fund appropriation, to the health access trust fund for purposes of facilitating a Medicaid rate adjustment.

In addition to the \$912,495 General Fund appropriation, approximately 38 percent of Medicaid revenue comes from the State's General Fund in the form of the State's Medicaid match.

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## Veterans' Home Is A State Facility

The Home is a State-operated facility, governed by a 20-member Board of Trustees appointed by the Governor. Fifteen members of the Board must be veterans.<sup>6</sup> There are approximately 220 employees at the Home.

A report by this Office in August 1999 noted that legislation passed in 1970 created the Agency of Human Services (AHS) and transferred the duties and responsibilities of the Veterans' Home Board of Trustees to AHS, and redefined the Board of Trustees' role as advisory to the AHS Secretary.<sup>7</sup> The

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<sup>6</sup> The Home is not a tax-exempt 501(c)(3) organization and does not file tax returns or IRS Form 990.

<sup>7</sup> 3 V.S.A. §§3002 & 3003.

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report found that “little or no control over the financial and other operations of the Home was exercised by the Board or the Agency of Human Services. The Board met infrequently, the Agency provided little administrative support to the Home, and few of the administrative, policy-making and regulatory powers and duties that the law assigns to the Secretary were exercised.”<sup>8</sup>

The Legislature in 2003 passed Sec. 67 of Act No. 63 which required

**“the staff of the legislative council, the Vermont Veterans’ home board of trustees, the office of the attorney general, and the office of finance and management [to] research and report to the general assembly concerning any potential conflicts or ambiguity in Vermont law relating to the operations and management of the Vermont Veterans’ home.”**

This effort led to the passage of Act No. 121, Sections 78-81, of the 2004 legislative session, which enacted 20 V.S.A., Chapter 87. The Act noted “it is the intent of the general assembly to reflect the current status of the Vermont veterans’ home and its board of trustees and to clarify ambiguities created by the many uncodified sections of law addressing these entities.”<sup>9</sup>

While the 2004 legislation clearly stated that “The Vermont Veterans’ home is governed by the Vermont Veterans’ home board of trustees,”<sup>10</sup> the Legislature retained 3 V.S.A. §3002, which attaches the Home to AHS for administrative support.. According to the 1999 report by this Office, this statute “transferred the Board’s duties and responsibilities to the Secretary of Human Services, [and] redefined the Board’s role as advisory to the Secretary ...”<sup>11</sup> Thus, one of the primary areas of ambiguity in State law regarding accountability of the Home was not fully addressed.

The 1999 review was conducted in part because of reports citing inadequate care at the Home.

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<sup>8</sup> *Vermont State Auditor’s Review of the Vermont Veterans’ Home, January 1999 through April 1999*, August 30, 1999, p.2.

<sup>9</sup> Act No. 121, Sec. 78(h).

<sup>10</sup> 20 V.S.A. §1713(a).

<sup>11</sup> Vermont State Auditor’s Review, op.cit., p. 6

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Although the scope of our engagement was limited to financial, management, and governance issues, according to reports we have reviewed, resident care has markedly improved in recent years. State inspectors from the Division of Licensing and Protection, and federal inspectors from the Department of Veterans Affairs have found relatively minor “deficiencies,” or variations from established standards, in the provision of healthcare, social services, and other assistance to residents.

Inspectors from VA make annual inspections. After a visit in December of 2004, Joan Wilmot, Financial Manager of the Department of Veterans Affairs’ Medical and Regional Office Center in White River Junction, sent a letter to the President of the Board of Trustees of the Vermont Veterans’ Home, Charles Bushey, and to William E. Reynolds, Assistant Attorney General assigned to the Vermont Department of Human Resources.

Ms. Wilmot wrote that her review of financial records at the Vermont Veterans’ Home on December 2, 2004 revealed discrepancies in the reporting of travel expenses that appeared to violate State of Vermont guidelines. Ms. Wilmot noted three discrepancies:

- a. Payment under the Corporate MasterCard for alcohol on April 15, 2004. (Vermont employees cannot be reimbursed for alcohol.)*
- b. Payment under the Corporate MasterCard for parking/traffic violation on April 9, 2004. (Vermont employees cannot be reimbursed for traffic violations.)*
- c. Payment under the Corporate MasterCard for a Porterhouse steak, \$75.93, and a Cowboy Rib Eye, \$30.95, that appeared to represent excessive charges. (Vermont employees must incur reimbursable expenses in an economical and prudent manner.)*

Under VA regulations, the Vermont Veterans’ Home must follow the guidelines of the State in order to receive financial support.

Ms. Wilmot asked the State of Vermont to do a review of the Vermont Veterans’ Home employee travel and to reorganize its files on travel and expense reimbursement to make future auditing easier.

The Board of Trustees responded immediately; on December 15, 2004, the President of the Board requested the State to begin an investigation as soon as possible.

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Beginning in January 2005, the Vermont Department of Human Resources began a review of travel, MasterCard, and other expenses by certain employees of the Veterans' Home. Three senior level employees, including the Commandant, subsequently resigned from positions at the Veterans' Home, and one administrator was placed on paid leave, pending completion of an investigation. The investigation was completed, and the administrator was terminated in June 2005.

An interim nursing home administrator was contracted to direct operations at the Home from March to June, 2005, at which time a new permanent administrator, Colleen Rundell, MS, LNHA, was appointed by the Governor after recommendation by the Vermont Veterans' Home Board of Trustees.

On April 26, 2005 at the request of the Governor, State Auditor Randy Brock formally engaged the Vermont Veterans' Home in an audit to determine the extent of misuse of state funds or assets, to assess the Home's financial controls and procedures, and to review how efficiently and effectively public funds are being used to achieve the mission of the Veterans' Home.

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## Objectives, Scope & Methodology

This audit was designed to assess the actions and procedures in place to meet standards established by laws, regulations, contracts, grants and other requirements in an adequate and timely manner.

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### Objectives

The six specific audit objectives were as follows:

- 1. Has there been misuse of public funds or assets in the operation of the Vermont Veterans' Home, and if so, what is the extent of the misuse of those funds or assets?***
- 2. If funds or assets have been misused, what problems did the Vermont Veterans' Home encounter in implementing and maintaining adequate internal control policies and procedures to protect and account for Home funds and assets, and how might they be corrected?***
- 3. Has the Vermont Veterans' Home applied its publicly provided resources efficiently, effectively, and legally to achieve the purposes for which the resources were furnished?***

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***4. Have other State Agencies with defined oversight roles exercised that oversight properly?***

***5. Is the Board of Trustees exercising appropriate oversight to ensure that its policies, procedures and controls are properly implemented and functioning as designed?***

***6. Are current policies, procedures and controls appropriate for the nature of operations of the Vermont Veterans' Home?***

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## Scope & Methodology

Our audit work was conducted from May 2005 until August 2005 and covered aspects of operations and transactions at the Vermont Veterans' Home from August 1999, through June 2005.

To achieve these objectives, SAO staff, supervised by and including the Deputy State Auditor, reviewed a range of records related to the Vermont Veterans' Home and conducted interviews with Board of Trustee members, current and past employees, vendors, and State officials with the Department of Finance & Management, the Agency of Human Services, the Department of Buildings and General Services, the Department of Human Resources, as well as representatives from the Vermont State Employees Association (VSEA). We reviewed past audits this Office has conducted regarding the Vermont Veterans' Home, and the State's nursing home inspection process. We reviewed records of meetings and Board of Trustee decisions. We reviewed previous audit reports, management letters, and applicable State laws and regulations. We have relied on an investigative report regarding travel and other expenditures produced by the Department of Human Resources.

We met with the Home's outside auditor, the Home's business office staff, and reviewed a range of transactions and expenditures between 1999 and 2005. We reviewed payroll and staffing reports for a period in April of 2004. We reviewed overtime summaries for Fiscal Years 2004 and 2005. We also examined relationships and transactions between the Home and selected vendors after employee interviews suggested possible improper relationships and kickback-type payments that may have occurred. The State Police provided copies of the hard drives for five VVH computers for analysis by this Office and a State computer forensics specialist.

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A draft report was issued to the Board of Trustees on November 3, 2005 and the Board's response to that draft has been included in Appendix II. Based on the response, revisions have been made in the final report where appropriate.

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## Part 1: Abuse of Public Funds at the Vermont Veterans' Home Was Troubling, but Limited.

Against a background of improving healthcare delivery and the initiation of highly-touted Dementia and Pain Management programs in recent years, there has been some misuse and abuse of funds at the Veterans' Home.

We found abuse of approximately \$30,000 related to travel and other expense reimbursements over several years. The amounts involved, though troubling, are not material to the financial health of the Home as its annual budget is now approximately \$16 million.

We also noted a range of concerns with respect to the use of State and federal funds provided to the Home for its day-to-day operations, which are described below.

It is also important to point out that the key mission of the Home – to provide quality treatment and services to its residents – had reportedly been improving steadily, though still not deficiency-free, since the former Commandant took over the leadership of the Home in August of 1999.<sup>12</sup>

Following are the primary findings related to the question of whether or not funds were stolen or abused at the Home that can be made public.<sup>13</sup> Other concerns are reviewed in a confidential Appendix, available to appropriate authorities only as the issues discussed relate to personnel matters or areas which may still be under investigation by other entities.

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### A. Improper Reimbursements of \$28,068

The Department of Human Resources has estimated a total of \$26,707 in improper reimbursements or payments to the former Commandant during

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<sup>12</sup> Discussions with Laine Lucenti, Director of Division of Licensing and Protection, DAIL, State of Vermont Agency of Human Services, and SAO review of inspection reports, May, 2005.

<sup>13</sup> According to *Government Auditing Standards 2003 Revision*, issued by the U.S. Government Accountability Office (GAO), "Abuse is distinct from fraud, illegal acts, and violations of provisions of contracts or grant agreements. When abuse occurs, no law, regulation, or provision of a contract or grant agreement is violated. Rather, abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances." Section 4.19, page 72.

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Fiscal Years 2003, 2004, and 2005.<sup>14</sup> The SAO questions an additional \$1,361 during Fiscal Years 2001 and 2002. The total is \$28,068. The former Commandant previously reimbursed the State \$1,271 and had \$6,900 in severance pay withheld, a total of \$8,171. There is a balance of \$19,896. The Department of Human Resources is seeking restitution, but no payments have been received as of the date of this report.

The state paid for travel and other expenses that violated State guidelines, including such items as:

- a. Renting vehicle for 8 days for a 3-day conference
- b. Renting larger vehicle than prudent
- c. Purchasing building supplies and tools for personal use
- d. Meals in excess of daily expenditure limit
- e. Personal long-distance calls while traveling
- f. Alcoholic beverages
- g. Dinner tips above 20 percent
- h. Gasoline for personal trips
- i. Hotel internet access charges
- j. Plane ticket for spouse
- k. Purchases of clothing and toiletries while traveling
- l. Hotel movies
- m. Parking tickets
- n. Meals for self or other employees with no receipts
- o. Music CDs and movies
- p. Personal groceries
- q. Private wireless internet connection

The former Commandant did not report travel expenses on travel reimbursement forms from the Department of Human Resources as required

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<sup>14</sup> Department of Human Resources, May 4, 2005.

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by statute and policy.<sup>15</sup> To incur many of these costs, the Commandant used a MasterCard acquired by the Home outside the State credit card program. MasterCard billed the Veterans' Home directly and was paid like a typical vendor through the Home's normal accounting system. Thus, the Commandant circumvented the required review of travel expense reimbursements by the Department of Human Resources.

The former Commandant, in an interview with SAO staff, disputed the amount of reimbursements in question and suggested that in so far as the reimbursements related to the state-provided residence on the Home's grounds were concerned, that those costs stemmed from water damage from inadequate plumbing systems and a sewer line obstructed by tree roots. He also stated that he felt he reported travel expenses properly. "I honestly believe that being a Commissioner, and advancing the name of the Home and our type of care, that these were the rules, that the way I did things was according to the rules. I never thought it was wrong. I never hid anything. I always had Joan (Cole, executive secretary) go over bills, and mark down if there was anything I had to reimburse the Home for. Never once did I believe that what I did was wrong."<sup>16</sup>

The Board of Trustees adopted a new travel and expense reporting policy, effective February 10, 2005, which noted:

"Travel expense incurred by the Commandant/Administrator must be reviewed and approved by the President of the Board of Trustees. Approval for out-of-state travel by the Commandant/ Administrator requires the prior approval of the President of the Board of Trustees and the Secretary of Administration."

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## B. Operating Business on State Time

The Home's Director of Maintenance was found by the Department of Human Resources to be engaged in operating a private Lake Ontario fishing charter business while in the office on State time, in violation of the State's Personnel Policy No. 5.6(2), "Required Conduct," which says:

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<sup>15</sup>Personnel Policy & Procedures No. 18, Employee Expenses, notes, "All claims for reimbursement must be fully justified and must be submitted on the State of Vermont Request for Reimbursement (Form AAF8)."

<sup>16</sup>SAO-Hollings telephone discussion, Sept. 6, 2005.

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“Employees shall devote their full time, attention, and effort to the duties and responsibilities of their positions during their scheduled work time, except when other activities are authorized by law, rule, or contractual agreement, or are approved by the appointing authority.”

The State also paid for a wireless internet connection account for the employee and purchased a wireless modem for a State-provided laptop computer, all of which were used in the employee’s business, according to interviews. After his departure, an examination of the employee’s laptop computer revealed a multitude of communications, documents, and web sites related to fishing and a fishing charter business. The employee later acknowledged in an interview with the State Auditor’s Office that he conducted business on occasion from work, perhaps up to 20 minutes a day.<sup>17</sup>

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### C. Missing Equipment

Records and interviews with current employees indicate that valuable hardware items were paid for by the Home but cannot be located at the Home today. These items include a power washer, propane heater, surveillance cameras, “Gorilla” ladder, large casement window, and a large tarp. There is insufficient evidence to prove or disprove that these items were misappropriated.

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### D. Unwarranted \$1,000 Bonus

On Dec. 10, 2003, former Commandant Hollings announced to the Board of Trustees that he was awarding a bonus to the Maintenance Director because “he has saved us better than \$280,000” by seeking heating oil prices outside the State contract system. On Dec. 12, Commandant Hollings signed a statement authorizing a non-recurring bonus to the Maintenance Director, for \$1,000. The statement said: “In the past 4 years [the maintenance director] has worked harder than anyone I could think of. He negotiated a flat rate for fuel at 82 cents a gallon. This was not his responsibility, yet he took it upon himself to save the facility over a quarter of a million dollars.” The Commandant made a similar statement to the House Appropriations Committee on February 5, 2004.

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<sup>17</sup> Interview, Sept. 2, 2005.

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The facts were not as presented, as a review of heating oil costs indicate:

Heating Season	VVH Heating Fuel Cost <sup>18</sup>
2001-2002	\$170,310
2002-2003	\$180,988

Thus, at the time of the Commandant's statement, heating fuel costs had risen by approximately \$10,000 in the most recent fiscal year. Five months later, at the conclusion of the 2003-2004 heating season, with heating degree days lower by 4.3% than the previous year, the Home's expenditure on heating fuel was indeed lower than the previous heating season but only by about \$12,000, not \$250,000:

2003-2004	\$168,981
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The Division of Rate Setting recently noted that "a survey of *per diem* heating costs at similar sized Vermont Nursing Facilities showed that the *per diem* heating costs at the Vermont Veterans' Home are double the average in this peer group."<sup>19</sup>

In addition, it appears that purchasing heating fuel was part of the Maintenance Director's job description which required him to "approve requisitions and contract release orders for materials, parts, supplies, and equipment."

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## E. Improper Use of Computer

Two computers owned by the Home and assigned to the Commandant were found with pornographic and sexually explicit images stored on them, in violation of the State's policy on Internet and computer use.<sup>20</sup> One had over 700 images, according to a forensics investigator who assisted the Vermont State Police. No evidence of child pornography was found. The Commandant indicated that the computers had normally been stored at his home and that he believed the improper usage was caused by family

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<sup>18</sup> Costs from VVH Medicaid Cost Report, Division of Rate Setting, Agency of Human Services.

<sup>19</sup> John Thomsen, CPA, Division of Rate Setting, May 26, 2005. In response, the Home's management noted that square footage of facilities was not considered, and that the Home's planned geothermal heating project will improve efficiency.

<sup>20</sup> State of Vermont Personnel Policies and Procedures, No. 11.7.

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members who had access to the equipment.<sup>21</sup> Both hard drives involved have been cleaned and the computers are being used for State business as intended.

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#### F. No Improper Relationships Between Vendors and Home Management Were Found

Because of concerns with how managers routinely circumvented purchasing procedures,<sup>22</sup> and because of comments by employees in interviews which pointed toward the possibility of kickbacks, special favors, and other improper arrangements between managers and vendors, the audit scope was broadened. We contacted a number of companies which provided products and services to the Home, reviewed invoices and accounting records, performed analytical procedures and interviewed sales representatives to help detect untoward arrangements. We found no evidence of kickbacks or other improper relationships.

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#### G. Resident Funds Secure, But Reconciliations Not Done Properly

Many residents choose to have the Home manage their personal funds. Funds from all participating residents are deposited in one local Merchants Bank checking account. The Home's new "Hi-Tech" software accounting system is used to track all individual resident accounts. Additional deposits, and any checks written by the Home on behalf of the resident, are noted in the Hi-Tech system account records for that resident.

The Merchants Bank resident fund checking account is reconciled to the bank statement monthly, but the individual account balances maintained on the Hi-Tech system are not summed and compared to the checking account balance. During the audit, five months were selected to attempt the appropriate reconciliation; none of the months selected reconciled. The most recent month tested, May 2005, did not balance and there was an unidentified variance of \$646.82. Staff attempts to identify the cause of this variance were unsuccessful.

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<sup>21</sup> Interview, September 6, 2005.

<sup>22</sup> A typical example would be preparing and signing a purchase order after an ordered item had arrived at the Home, according to interviews.

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Further, the Resident Trust petty cash fund is not properly reconciled. A \$2,000 petty cash fund is maintained to pay out currency to the residents as needed. The money is from the Resident Trust Fund but kept in cash instead of being deposited in the Trust Fund checking account. According to VVH staff, when the resident petty cash drawer becomes low on funds, the remaining petty cash is counted, and then subtracted from \$2,000. The difference is then requested from the business office and a check is then drawn on the Resident Trust Fund checking account to bring petty cash back up to \$2,000. At no time, however, is the petty cash request for reimbursement supported by expense receipts or other documentation. There are receipts for expenses made within the monthly files; however, these receipts are not organized to support the amount expended or amount requested.

Three months were selected to attempt to reconcile the receipts in the file to the amount requested. One month was completed and came to within \$34 of the amount requested during the month. The other two months were not able to be reconciled due to the condition and/or disorganized collection of the slips.

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#### H. Expenditures of Donated Funds Were Made in Accordance with Donor Intentions

We traced 18 donations from receiving the initial letter, to deposit in the Donated Funds account, and finally to expenditure in accordance with the donor's wishes. No exceptions were found; all expenditures tested agreed with the donor's intentions. We noted one family was concerned that donations for the Home requested in a family member's obituary were not reported back to the family of the deceased and believed that they should be.

It was noted while reviewing cancelled checks for the Donated Funds checking account that funds donated for specific purposes and for general needs of the Residents are being combined with miscellaneous funds collected from employees and used for other than Vermont Veterans' Home needs. As an example, there were checks written to various employees for employee service recognition; there were also checks in amounts ranging from \$250 to \$400 for employee Christmas party supplies and reimbursement to the Resident Trust petty cash for employee recognition. There were also two checks, \$700 and \$475, written to employees as short-term no-interest loans, or pay advances. Documentation shows that these were repaid within two weeks.

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Recognizing the potential risks of commingling employee recognition funds in the Donated Funds account, the President of the Board of Trustees directed staff to end this practice in May, 2004.

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## I. Backlog of Deferred Maintenance as Result of Lean Appropriations and Management Neglect

The Veterans' Home is now facing a backlog of deferred maintenance and capital needs termed "dramatic" by James Reardon, Commissioner of Finance and Management, Administration Liaison to the Home, and former Veterans' Home Board and Finance Committee member. Four years after hiring a new Maintenance Director/Environmental Services Director, the Board of Trustees' Buildings and Grounds Committee was still discussing "doing an environmental assessment of all the Home's capital needs to be broken down in 6 months, 3 years, and a 5-year plan that needs the State's help."<sup>23</sup>

Earlier this year, an interim Environmental Services Director from the Department of Buildings & General Services (BGS) estimated the cost of needed capital improvements at the Home at \$1.4 million. \$306,000 of this amount was judged as necessary to address immediate Life Safety issues. An additional \$3-\$4 million to replace an aging boiler room and heating plant has been previously discussed by the Board of Trustees. However, if the Home wins approval of a VA Construction Grant, the State's share will only be 35 percent; according to the Board President, VA approval of the first phase has been received, with support to complete the project expected in the future.

There are several factors contributing to capital needs situation:

- The former Commandant at times avoided consulting or working with the Department of Buildings and General Services, the organization charged with the care and safekeeping of the State's buildings, which has a large staff and varied technical resources.<sup>24</sup>
- The Home did not have a comprehensive, professionally developed capital needs plan in place.

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<sup>23</sup>Joseph Acinapura, Chairman of Building and Grounds Committee, Dec. 15, 2004.

<sup>24</sup> According to a BGS official, the former Commandant did not want to discuss ideas for sharing maintenance employees and equipment with a State facility nearby.

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- Maintenance and repair priorities were misplaced; on several occasions the former maintenance director invested staff time and funds on misguided projects, for example building a wall between corridors that was immediately deemed a breach of the fire code by a local inspector and torn down.
  - BGS' southern Director of Maintenance viewed the Home's maintenance department under its former director as "not up to speed" when it came to current building maintenance practices. He noted that the custodial staff had little knowledge of new materials and techniques. He also expressed surprise at the lack of business planning in the maintenance department; the lack of staff meetings; the lack of a departmental budget and accountability; and that employees were missing performance evaluations. The new Director of Environmental Services at the Home confirmed that little capital needs planning had taken place in the past several years in that department.
  - Nurses reported to us that the former maintenance director often refused to repair equipment or procure replacements for broken equipment because he said his department was too busy.
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## J. Conversions to Vermont Medicaid a Concern

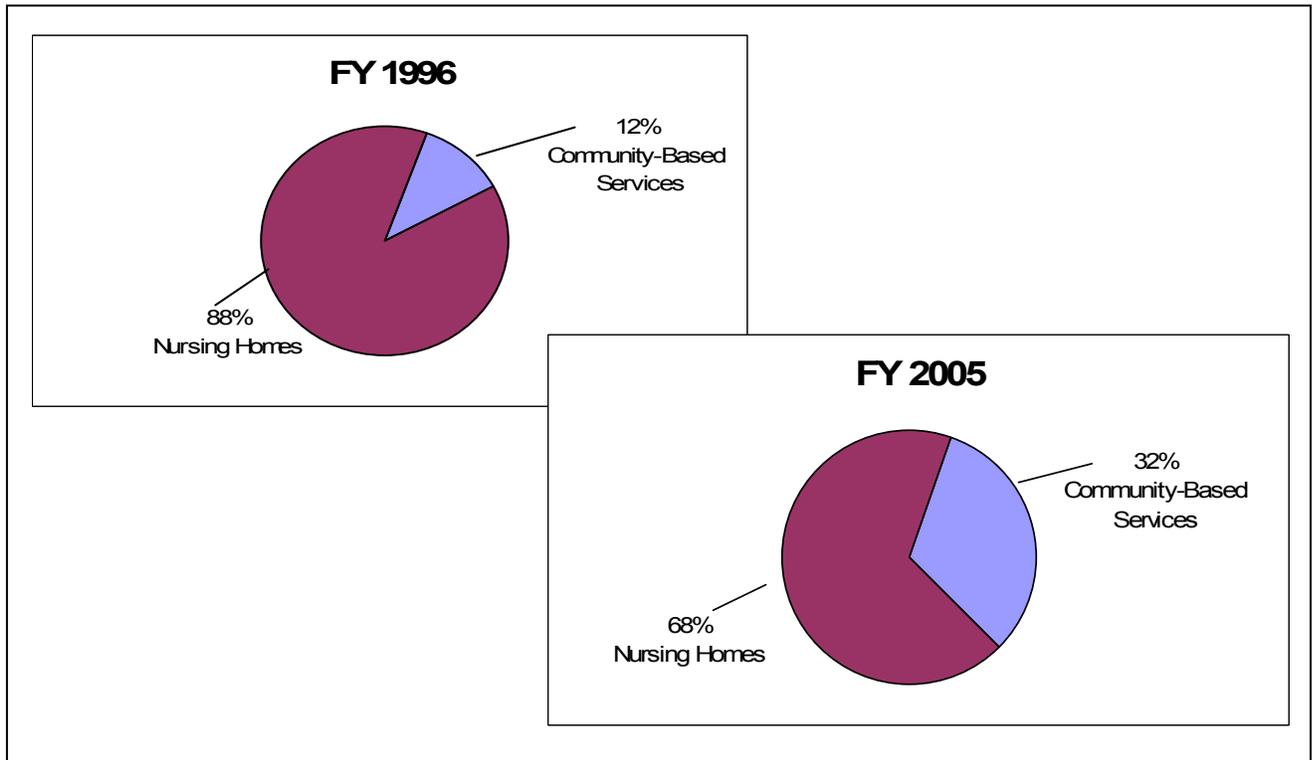
The Home's revenues are obviously closely tied to the number of residents it serves. Keeping occupancy rates – the "census" – high is a challenge for the Home. Bennington County, with five nursing homes, had 54 vacant licensed nursing home beds as of June 15, 2005. The Veterans' Home had vacancies of 26, 31 and 23 beds for the first three quarters of 2005.

In addition, the State is seeking to serve more people with nursing home needs at home, (see figure 2 for an illustration of the changes in the percentage of public funds that have been provided to nursing homes versus community-based care) and has a goal of increasing the number of Medicaid Waiver slots by 87 in Bennington County. Providing Medicaid long-term care to 87 more people in their homes, instead of in nursing homes, would achieve a State policy of serving 40 people through Home and Community-Based Waivers for every 60 people being cared for in a nursing home.<sup>25</sup>

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<sup>25</sup>"Shaping the Future of Long Term Care and Independent Living, 2004-2014," Vermont Department of Aging and Independent Living, Agency of Human Services, May 2005.

**Figure 2: Percentage of Public Expenditures for Long Term Care Spent on Nursing Homes Versus Community-Based Services**



Source: DAIL.

Waivers provide long-term care assistance to nursing-home eligible Vermonters in their homes, reduces State costs, but also puts additional pressure on nursing homes seeking to maintain high occupancy rates.

See Table 6 for the nursing home vacancy rates, by county.

**Table 6: Vacancy Rate of Nursing Homes by County, as of June 30, 2005**

<b>Vermont Counties with Medicaid Eligible Nursing Homes</b>	<b>Licensed Beds</b>	<b>Vacant Beds</b>	<b>Vacancy Rate %</b>
Addison	105	12	11.4%
Bennington	545	54	9.9%
Caledonia	170	9	5.3%
Chittenden	551	84	15.2%
Essex	0	0	0.0%
Franklin	214	16	7.5%
Grand Isle	0	0	0.0%
Lamoille	130	13	10.0%
Orange	20	0	0.0%
Orleans	272	26	9.6%
Rutland	418	25	6.0%
Washington	459	53	11.5%
Windham	213	16	7.5%
Windsor	322	19	5.9%
	3419	327	9.6%
	<b>Total beds</b>	<b>Vacancies</b>	<b>% Vacancies</b>

Source: DAIL.

To improve revenues and fill beds, the Home accepts out-of-state applicants, some of whom may convert to Vermont Medicaid. As a Medicaid-eligible facility, the Home must accept qualified applicants from any state. However, the cost to Vermont for out-of-state admissions who subsequently convert to Medicaid can be substantial.

In the 2002-2004 period, there were a total of 300 admissions to the Vermont Veterans' Home, according to a review by the Department of Aging and Independent Living (DAIL). Nearly 40 percent of these admissions came from out-of-state. According to staff interviews, during this time the Home encouraged "private pay" eligible residents from outside Vermont to convert to Vermont Medicaid. In some cases, New York residents (or their families) were urged to apply for Vermont Medicaid instead of first applying to New

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York Medicaid, we were told, primarily because New York reimbursements are lower and slower.<sup>26</sup> The Veterans' Home is an approved New York Medicaid provider and several New York counties close to Vermont will process Medicaid applications of their residents and make payments to the Veterans' Home. New Vermont Medicaid policies now require New York residents to first apply to New York Medicaid and be officially denied before applying for Vermont Medicaid. Residents must certify to Vermont Medicaid that they are not planning to return to their former residence out of state.

The Veterans' Home had 26 out-of-state admissions who converted to Vermont Medicaid during the period 2002-2004. To illustrate the effect on the State's General Fund budget, consider that the net daily payout by Vermont Medicaid from July 1, 2004 to Nov. 30, 2004 was approximately \$140 per day per resident at the Home.<sup>27</sup> The 26 out-of-state admissions who converted to Vermont Medicaid thus would cost Vermont Medicaid \$3,640 per day, or about \$1.3 million per year. The State's General Fund matching share in this scenario, approximately 38 percent, would be about \$500,000 per year.

Income from New York State Medicaid does help to provide cost savings to the State of Vermont. However, from FY 2002 through FY 2004, the number of New York Medicaid resident days has dropped by 380 fewer days per year and the number of Vermont Medicaid resident days has increased by 6,661 additional days per year.<sup>28</sup>

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## Recommendations

- A. The State should continue to seek restitution of improper reimbursements made to former employees.
- B. The Home should enforce prohibitions on conducting private business while on State time or with State-provided equipment on State property.

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<sup>26</sup> Vermont Medicaid reimburses the Home today at a rate of \$190.22 per day; New York Medicaid's daily reimbursement is \$171.74.

<sup>27</sup> Net payout is the amount reimbursed to the Veterans' Home after a resident's applied income of \$30 (on average) and a \$57/day VA stipend (now \$59.36) are deducted from the Home's reimbursement rate. In the period cited, the Home's reimbursement rate was \$233 per day. During this period when the Home's Medicaid net payout was approximately \$145, the average Medicaid net payout for all Vermont nursing homes was \$105 per day, or 38 percent less.

<sup>28</sup> SAO analysis based on audited financial statements.

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- C. The Home should review internal security controls to reduce the risk of equipment and supply theft at the Home.
  - D. Bonus payment applications as described in Article 13 of the VSEA contract, “Outstanding Performance,” that are above a *de minimis* threshold should be approved by the Commandant and the President of the Board of Trustees before being submitted to the Department of Human Resources.
  - E. The Home’s computers, particularly laptops, should be physically and logically protected to prevent unauthorized use.
  - F. The Home should abide by State procurement policies and rules.
  - G. The Home should adopt polices that require proper reconciliation of the Resident Trust Fund and the Resident Petty Cash Fund on a monthly basis.
  - H. The families of deceased residents whose obituaries suggest donations to the Vermont Veterans’ Home should be notified after an appropriate period about the resulting donations.
  - I. The Home should work closely with the Department of Buildings and General Services (BGS) to provide the Board of Trustees and concerned State officials with a professional estimate of capital needs and needed major repairs.
  - J. The Department of Aging and Independent Living (DAIL) should report to the Governor and the Board of Trustees regarding possible impacts of out-of-state Medicaid conversions on the State’s Medicaid budget and Long Term Care Medicare Waiver agreement. The Home’s admissions department should be instructed not to solicit or improperly encourage out-of-state applicants to convert to Vermont Medicaid.

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## Part 2: The Board of Trustees Should Strive for a “Best Practice” Approach to Governing the Home

The Board of Trustees has progressed significantly since the 1999 audit by this Office and has come to grips with its fiduciary and oversight responsibilities to a great degree. The Board has developed a strategic plan, for example, and reviews and updates it every year. The Board has a strong Finance Committee which is refining performance benchmarks to better evaluate the Home’s revenue and expense situation on a monthly basis. Further, the Board now includes trustees with expertise in healthcare, business, the military, education, and other fields.

These improvements to the Board’s composition and to its policies and procedures should be accelerated by adoption of “best practice” strategies to improve Board operations, accountability, and self-evaluation.

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### Board Background

The Board of Trustees is appointed by the Governor and consists of 20 members, 15 of whom must be veterans.

The Board has authority to “adopt policies, procedures, and by-laws regarding the operation ... and management of the Home.”<sup>29</sup>

The Commandant is recommended for appointment by the Board of Trustees and, since the legislative changes of 2004, the Governor now makes the formal appointment of a licensed nursing home administrator to become Commandant.

By law, the Commandant is “the chief administrative officer of the home and shall exercise general supervision over the business and affairs of the home,” and shall “ensure that all laws, rules, regulations and policies pertaining to the home are observed.”<sup>30</sup> Hiring and oversight of the Commandant are thus very important functions for the Trustees.

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<sup>29</sup> 20 V.S.A. §1714(1).

<sup>30</sup> 20 V.S.A. §1716 and §1716(7).

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## Tone at the Top Lacking

The control environment of any organization is the foundation upon which all of the other components of internal control are based. The key to strong internal control is the presence of a culture of accountability, compliance and “doing the right thing.” It is often referred to as “Tone at the Top.” The control environment established and maintained by an organization’s top management<sup>31</sup> and overseen by its board, is the first defense against misconduct, unethical acts and impropriety.<sup>32</sup> The Board of Trustees relied on the Home’s day-to-day managers to establish and maintain this “tone.” For this to be effective, top management must clearly articulate a set of values both by words and actions and spread those values throughout the organization, and the Board of Trustees must have systems in place to provide assurance that its managers are living up to this set of values.

Specific measures that reinforce tone at the top typically include:

- Code of conduct
- Clear communication of expectations
- Clear and available channels to report troublesome ethical issues
- Explicit accountability
- Investigation and enforcement of reported ethical violations
- Feedback to members of the organization

The Board of Trustees relied heavily on management to insure that regulations were followed and that a culture of compliance and integrity existed throughout the Home’s workplace. In practice, the former Commandant did not set a tone demonstrating appreciation of or support for sound integrity and high ethical values.

For example, as described elsewhere in this report, he ignored State requirements for incurring and reporting travel and entertainment expenses; he routinely denigrated the competence of Board members to Home employees; he openly derided other state agencies and departments (in particular the Department Human Resources); he ignored legislative direction

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<sup>31</sup> The term “management” used in this report refers to the Commandant and his or her key management team, the operating leadership of the Home, as distinct from the Board of Trustees.

<sup>32</sup> See also *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-213.1, Washington, D.C., November, 1999; and internal control guidance published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) at [www.coso.org](http://www.coso.org).

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to obtain administrative assistance from the Agency of Human Services; he openly violated State policies in areas as diverse as purchasing to opening and maintaining unauthorized credit card accounts; and he awarded an unwarranted bonus after providing false information to support it. None of these actions were detected by the Board.

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## Risk Oversight Needs Improvement

The failure in Tone at the Top reflects a risk oversight process that demands improvement. Risk management is typically a key responsibility of management. Oversight of the quality and effectiveness of risk management falls to the Board. There is an abundance of guidance on how boards can monitor indicators of problems in the control environment (e.g., high turnover, excessive grievances, auditor unease, employee discontent, closed and highly structured communications from management, known ethical violations, rules violations by executives, the suppression of dissent, etc.). Providing focused training to Board members on their oversight responsibilities and on employing best practices for non-profit boards would have been useful in helping the Board to recognize and deal with these problems early.

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## Board's Special Committee Meetings Are Not Publicly Warned

Committees of the Board of Trustees typically meet on the day of the quarterly Board of Trustee meetings, but will also schedule committee meetings at other times. Though the quarterly Board of Trustees meetings are publicly warned, we saw no evidence that special committee meetings were publicly warned as required by law.

The President of the Board of Trustees indicated that the Board will seek clarification from the Attorney General's Office regarding the need to publicly warn committee meetings.<sup>33</sup> The President noted that the State's open meeting law exempts meetings where routine day-to-day administrative issues are considered outside a duly warned meeting, "provided that no money is appropriated, expended, or encumbered."<sup>34</sup>

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<sup>33</sup> Discussion, Charles Bushey, President of the Board of Trustees, Nov. 17, 2005.

<sup>34</sup> 1 V.S.A. §312(g).

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## Board/Commandant Relationship

Experts in non-profit governance issues report that “in every organization no other relationship is as important as the relationship between the board and its CEO.”<sup>35</sup> A good relationship, they note, can set the stage for effective leadership and governance.

We noted that most of the Board of Trustee communication with the Commandant was handled through the Board President, and with other Trustees at quarterly Board meetings. Through interviews and a review of records, it appears that the Commandant did not excel at sharing information with the Board of Trustees. He did not like Board members who tried to micromanage the Home on small issues. The former Commandant felt that many Trustees did not understand nursing home operations or the critical area of healthcare financing. “A lot of them don’t have a clue,” he said.<sup>36</sup>

Admiral Warren Hamm was President of the Board for most of the former Commandant’s tenure, and spoke at least two or three times a week with the Commandant or his executive secretary by telephone from his home to hear news about the Home and if any item needed his attention. In an interview, the Admiral noted that his management philosophy grew out of his leadership experience in the Navy where he would appoint the best captain possible and let them run the individual ships. “Based on my past experience as an Admiral, you’re certainly concerned and want to be alerted to potential problems. So you try to set up systems that would alert you if there are any little storm clouds coming. Most of my career involved trying to get indicators on things before they happened. I did not get into the day-to-day operations of the Home; I didn’t think that was my spot.”

The President of the Board of Trustees did not review or approve travel and other expenses of the former Commandant, but the Board has adopted new policies recently to address this issue, including the requirement that the Board President approve out-of-state travel as well as all reimbursement requests of the Commandant.

Because of the Board’s reliance on the Commandant for compliance issues, the Board’s in-depth annual performance evaluation of the Commandant was vital. In a survey by the Governance Institute, conducting a formal CEO

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<sup>35</sup> Allo Adams, MSPH, MSHA, “*Quality of Board Governance in Nonprofit Healthcare Organizations*,” *The Internet Journal of Healthcare Administration*, 2005, Vol. 2, No. 2, p. 15.

<sup>36</sup> Telephone discussion with State Auditor’s Office, Sept. 6, 2005.

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performance review was viewed by 91 percent of board members surveyed as a critical factor in effective governance.<sup>37</sup> The Board's approach – goal setting and review, staff surveys, and a meeting of the President and Commandant – seemed reasonable in approach, but was perhaps hampered by reliance on the Commandant's untested assertions in some key areas. (This topic is discussed further in the confidential Appendix I.)

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## Board Did Not Ask Hard Questions

Nonprofit healthcare boards and administrators have come under increasing scrutiny in recent years after the downfall of major for-profit corporations such as Enron, WorldCom and Arthur Andersen. Many healthcare facilities have responded by tightening up policies and procedures. This is laudatory but not sufficient, according to Barry S. Bader, a governance consultant and publisher of Great Boards. He notes that Enron's board was well-organized, knowledgeable and experienced:

***“What Enron lacked was not structure, process or talent, but a culture of accountability, independence, diligence and candor in which directors raised hard questions and didn't rest until they got good answers.”<sup>38</sup>***

From our discussions with Board members and a review of Board meeting records, it appears that the Board of Trustee meetings every quarter are not forums for hard questions. In recent years, it appears that the Board typically heard management reports which touted the status or success of various healthcare initiatives – such as the Alzheimer's program – or an overview of medical and nursing operations, but Trustees did not seriously question management. “This would not be appropriate in a public meeting,” said one former Board member.<sup>39</sup> Because the Board's structure is committee-oriented, at full Board meetings committees would often report on past committee work and seek support for committee recommendations.

Because the Board meets infrequently, with many Board members living outside of Bennington County, and because there was no ongoing,

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<sup>37</sup> Adams, op. cit., page 4.

<sup>38</sup> Barry Bader, *Boardroom Briefing: Enron's Real Lesson*, Great Boards Newsletter, November 2002, Vol. II, No. 4, page 1.

<sup>39</sup> Interview, June 7, 2005.

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functioning avenue of confidential communication between employees and Board members, the Board did not hear of concerns regarding improper activities and inefficient operating procedures.

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## Employees Did Not Speak To Board Members About Concerns

Employees form an important control point to reduce the risk of fraud, abuse and improper activity when they may observe potentially unethical or illegal conduct and wasteful spending. Employees did not speak up as vigorously as they should have in the face of an antagonistic work environment and improper or wasteful practices, and the Board's attempts to provide a confidential sounding-board for employees were ineffective, despite good intentions. Since Mr. Hollings has left the institution, the Board learned that he discouraged employees from talking with Board members.

From interviews, we learned that some employees questioned Commandant Hollings about his expenses, the improper method of paying for them, and about avoiding purchasing requirements by signing purchase orders after items had been ordered and received. Rather than acknowledge state guidelines and change procedures, the Commandant responded by telling employees it was none of their business. The Commandant was reported to have created an atmosphere of fear and intimidation among subordinates – where State workers were afraid to speak up for fear of losing their jobs. We heard in several interviews that individuals suspected thefts of items by Home employees, but said nothing.

These interviews also painted a portrait of a dysfunctional management team which:

- a. fostered a working environment marked by bluster, arrogance and intimidation on the part of management, and timidity and fear of job loss on the part of many employees.*
- b. stifled labor-management discussion, cooperation, and problem-solving and denigrated some employees;*
- c. limited the Home's involvement with State agencies and State-sponsored working groups authorized to provide assistance and advice.*

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When asked why they did not contact Board of Trustee members or other State officials regarding working conditions and possible improper conduct, current and former employees indicated that people typically felt that there was no one to whom they could turn who could or would address the issues, or that they decided not to speak up due to the possibility of retaliation or even job loss.

State union representatives also reported that many official grievances dealt with favoritism exhibited by supervisors. “If they liked you, you could step over the line quite a bit,” said one. “But if they didn’t like you, you were getting written up all the time for things.”

The Home has a 65-page handbook of Personnel Policies but it does not contain a non-retaliation or non-retribution policy to help encourage employees to promptly report what they might believe, in good faith, to be a violation of laws, regulations or Home policies. Home employees thus rely on the standard whistleblower protection clause in the State labor contract which says:

***A “whistle blower” is defined as a person covered by this Agreement who makes public allegations of inefficiency or impropriety in government. No provision of this Agreement shall be deemed to interfere with such an employee in the exercise of his or her constitutional rights of free speech, and such person shall not be discriminated against in this employment with regard thereto ... Employees who possess information about inefficiency or impropriety in State government are urged to bring that information to the attention of appropriate officials prior to making public allegations.***<sup>40</sup>

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### Board of Trustee Efforts to Get Employee Concerns Heard and Discussed in Confidential Settings Were Not Effective

The Board’s efforts to develop confidential, trustworthy lines of communication with frontline employees were not effective.

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<sup>40</sup> Article 65, *Agreements between the State of Vermont and the Vermont State Employees’ Association, Inc., Non-Management Bargaining Unit*, effective July 1, 2003 to June 30, 2005, p. 125.

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In a report to the Vermont General Assembly in January of 2003, a committee charged with examining state laws relating to the Veterans' Home discussed the duties of the Trustees and noted, "Third, and perhaps the most important, the Trustees are ombudsmen for the residents and staff at the Home. If there are complaints against management, or concerns about the operation of the Home, employees and residents may approach any Board of Trustee member to discuss the concern."

According to interviews with Board members and staff, one of the attempts to get employee comments on a confidential basis occurred when the Trustees designated a personnel committee to be available after Board of Trustee quarterly meetings to meet with any employees who had concerns. These meetings were sparsely attended and ultimately abandoned. Former Trustee president Admiral Warren Hamm remembered appointing a fellow Board member, Art Charron, of the Bennington area, to visit the home and be the eyes and ears of the Board and to hear complaints from staff. Mr. Charron, however, functioned as an ambassador of the Home to local and regional veterans organizations; he did not seek out employees for comments.

The Public Company Accounting Reform and Investor Act was signed into law by President George W. Bush on July 30, 2002, and is known as the "Sarbanes-Oxley" act named after its two chief sponsors. Although this legislation is generally thought only to apply to publicly traded companies, two provisions specifically apply to nonprofits. Nonprofit organizations are required to adhere to Title III, Sec. 806, and Title XI, Sec. 1107, of the act which provide protection to employees who report suspected fraud or other illegal activities.<sup>41</sup>

There is wide agreement among experts as to what organizations need to do to comply with these requirements. Peggy Jackson and Toni Fogarty in *Sarbanes-Oxley for Nonprofits* suggest that policies and procedures set up to collect, retain and resolve claims about possible wrongdoing have the following components:

***There is a confidential avenue for reporting suspected waste, fraud and abuse.***

***There is a process to thoroughly investigate any reports.***

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<sup>41</sup> *Sarbanes-Oxley for Nonprofits*, Peggy M. Jackson, DPA, CPCU and Toni E. Fogarty, Ph.D., MMPH, John Wiley & Sons, Inc. 2005, p. 12.

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***There is a process for disseminating the findings from the investigation.***

***The employee filing the complaint will not be subjected to termination, firing, harassment, or miss out on promotion.***

***Even if the findings do not support the nature of the complaint, the employee or volunteer who made the complaint will not face any repercussions.<sup>42</sup>***

We did not find evidence of such a system in place at the Veterans' Home. (In September, 2005, the new Commandant submitted a proposed whistleblower protection, non-retaliation policy to personnel staff at the Agency of Human Services for comment, prior to formal adoption of a new policy by the Board of Trustees.)

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## Absence of an Audit Committee Hampered Board Oversight

Another control to insure the efficient use of publicly-provided resources rests with the Board of Trustees and its relationship with the independent auditing firm that annually audits the Home's financial statements.

The Home is technically a "component unit" of State government for the purpose of financial reporting. The Home prepares its own financial statements for audit by an independent accounting firm. The audited statements are incorporated every year into the Comprehensive Annual Financial Report of the State of Vermont. If the Home reported as a State facility, and not a component unit, management would prepare the annual financial statements for the Administration and these statements would be audited by the State Auditor's Office.

The Board of Trustees does not have a formal audit committee to help shape the scope and methodology of the audit. The Board's Finance Committee is most involved with the outside auditing firm, but did not meet privately with the Home's independent auditors to review possible issues for action until four years ago. Since then, the Finance Committee has met privately with the auditors, with no management present, at least once a year to discuss financial and operational issues. The dialogue between independent financial statement auditors and the Board is an important one in identifying and

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<sup>42</sup> Ibid., p. 76-77.

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correcting any internal control deficiencies and improving accountability and the efficient use of publicly-provided funds.

The audit process is one of the best ways to accurately report an organization's financial situation and how well it is doing in meeting performance goals. Jackson and Fogarty suggest that nonprofit organizations could adopt the following industry "best practices" to improve oversight and management of the organization's assets:

**The audit committee must be directly responsible for the appointment, compensation, and oversight of the independent outside auditing firm.**

**The accounting firm must report directly to the audit committee, not to management. The audit committee should meet in executive session with the outside auditors to review issues and potential problems.**

**All members of the audit committee must be financially literate and one should have professional qualifications as a financial expert. In addition, the committee must have limited membership from the finance committee of the organization.**

**The audit committee must insure that effective internal control processes have been developed and fully implemented by management and staff to identify and analyze financial reporting problems.**

**An audit committee member may not accept any consulting, advisory, or other compensatory fee from the organization, except in his or her capacity as a board or committee member.<sup>43</sup>**

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## Relative Responsibilities Between the Home and Other State Agencies Need Clarity

A number of State agencies have clear statutory responsibilities toward the Veterans' Home; these duties, and the overall capacity of these agencies, should be well understood by the Board of Trustees. The Board of Trustees

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<sup>43</sup> *Sarbanes-Oxley for Nonprofits*, Peggy M. Jackson, DPA, CPCU and Toni E. Fogarty, Ph.D., MMPH, John Wiley & Sons, Inc. 2005, pp. 32-38.

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is the Home's governing body, but the Home remains a State facility, operating as a distinct department. Pragmatic and productive cooperation with other State agencies should benefit the Home and its residents.

By statute, the Agency of Human Services (AHS) is to provide a range of administrative support functions. While AHS staff members have been available for questions and advice, especially on labor relations issues, AHS did not provide the full range of support functions as outlined in State law.

Purchasing, human resources, and property maintenance services are other areas where State agencies could have performed better to meet their responsibilities to the Home.

The Division of Licensing and Protection has performed mandated unannounced inspections and complaint investigations in a timely manner.

Under 3 V.S.A. §§3002(b) & 3003 the Legislature in 1970 established the Agency of Human Services and attached the Vermont Veterans' Home to it for a wide range of administrative support functions.

These functions are outlined in 3 V.S.A. §3086, which created the AHS Administrative Services Division, and declares that:

**“(b) The administrative services division shall provide the following services to the agency and all its components, including components assigned to it for administration:**

- 1. Personnel administration;**
- 2. Coordination of financing and accounting activities;**
- 3. Coordination of filing and records maintenance activities;**
- 4. Provision of facilities, office space, and equipment and the care thereof;**
- 5. Requisitioning from the department of buildings and general services of the agency of administration, of supplies, equipment and other requirements;**
- 6. Management improvement services; and**
- 7. Other administrative functions assigned to it by the secretary.”**

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In recent years, AHS has provided advice and counsel to staff at the Veterans' Home on personnel and regulatory issues, and an AHS manager served on the Board of Trustees, but, according to interviews, AHS has not directed the administrative functions of the Home as Vermont statutes prescribed.

Legislation passed in 2004 attempted to address governance ambiguities in State law, and consolidated key laws pertaining to the Home in a new chapter (V.S.A. 20, Chapter 87). The new statutes established the Home firmly as a State agency, declaring that "The Vermont Veterans' home is a body corporate and politic and a public instrumentality of the state."

The law also outlined a clear chain of command: the Governor appoints the members of the Board of Trustees, and the Board has full responsibility for the policies, procedures, management and operation of the Home. The Board recommends a Commandant for appointment by the Governor, and supervises the Commandant in seeing that all laws, regulations and procedures relating to the Home and its operation are followed.

However, while establishing the Board of Trustees as governors of the Home, so to speak, the Legislature retained the old statutes that attached the Home to the Agency of Human Services. Thus, absent a memorandum of understanding between the two, clarifying roles and responsibilities, the relationship of the Home to AHS remains ambiguous.

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## Purchasing and Maintenance Need Review

The Board of Trustees faces a number of restrictions on its authority, not encountered by other nonprofit healthcare boards, by virtue of the Home's status as a State facility. For example, 29 V.S.A. §902(a) states that the Commissioner of Buildings and General Services "shall contract for and make all purchases, including but not limited to all fuel, supplies, materials, equipment, for all departments, offices, institutions and other agencies of the state and counties."

According to interviews, the Home's former management was adept at finding ways around these BGS purchasing requirements. Earlier this year, for example, the Home avoided working with the BGS Purchasing and Contract Administration Division on competitive bidding by terming its purchase of an \$11,000 piece of replacement equipment in the kitchen "an emergency," and thereby avoiding a public bidding process, when in fact it

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was not an emergency. The Home has also missed opportunities to work with BGS on some commodities, vehicle and supply purchases.

On the positive side, members of the BGS purchasing group met with staff at the Veterans' Home April 20, 2005 to review purchasing policies and procedures and to address issues that prevented the State from possibly getting the best value for money spent at the Home.

Property maintenance assistance from BGS, and personnel assistance from the Department of Human Resources are two other areas where, according to interviews, the Home and the state agency have not cooperated fully. For example, BGS has proposed discussions on sharing maintenance staff and equipment since the State also maintains an office building next door to the Veterans' Home, but the Home's former commandant declined to have those discussions. There seemed to be more cooperation with BGS on capital requests to the State Legislature.

Before the 2004 consolidated legislation, BGS had the authority to "prepare or cause to be prepared plans and specifications for construction and repair on all state-owned buildings... and to supervise construction, improvement, repair, alteration, demolition and replacement of and addition to state buildings, structures and facilities when the estimated cost thereof exceeds \$3,000 ..." <sup>44</sup> This did not always happen, as, according to interviews, there was disagreement about whether or not the Home's buildings were legally "State" buildings. The new law, 20 V.S.A. §1711 et. seq., clearly grants the Board of Trustees the authority to hold title to real property originally conveyed to the Trustees of the Soldiers Home in Vermont on January 15, 1887, but also requires that BGS shall, "after consultation and concurrence of the Board,"

- (1) Supervise the engineering, construction, improvement, repair, alteration, demolition and replacement of and addition to buildings, structures, and facilities of the home.**
- (2) Solicit bids and award contracts for the performance of engineering services for specific projects at the home.** <sup>45</sup>

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<sup>44</sup>29 V.S.A. §152(a)(3) and (4).

<sup>45</sup>20 V.S.A. §1720.

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Thus, while the Board of Trustees holds legal title to the land, the buildings are clearly State property under the control and supervision of the Department of Buildings and General Services.

According to interviews, cooperation is now excellent between BGS and the Home on the Home's three-phase geothermal heating plant project that is in its first phase. This project will replace of the Home's antiquated heating system.

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## Department of Human Resources

The former Commandant appeared to have a low opinion of the State's Department of Human Resources, formerly the Department of Personnel. He reported to the Board of Trustees in January 2003, "Working for the State of Vermont, which has a very passive Personnel Department, as well as dealing with the largest union in the State, makes discipline almost impossible." The perceived coddling of State employees irritated the Commandant. Once, when Human Resources e-mailed a snowstorm warning statewide to managers, indicating that some might want to send employees home early, the former Commandant forwarded the message to the Personnel Director with the remark, "Pardon me while I puke."<sup>46</sup> Another time, after the Home's business manager asked him for information on the Home's five-year information technology plan and budget, the Commandant quipped in an e-mailed response:

***"I am terribly sorry, but after a careful review of my job description I find that this is not identified as my job. I have never done this, won't change from my past practices, and frankly you can't make me. – A proud Vermont State Employee"***<sup>47</sup>

According to interviews, staff at the Home's business office were not able to get payroll reports in the manner required by the Home that would help with future staffing and use of vacation and compensatory time. The Department is planning significant changes in the payroll process for 2006 and hopes to be better able to meet the Home's specific needs.

Obviously, the degree of cooperation with State agencies depends upon the commitment of the Home's Commandant and the Board of Trustees to

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<sup>46</sup> Earle Hollings e-mail to Doris Zampini, March 30, 2001.

<sup>47</sup> Earle Hollings e-mail to Jean McLenithan, August 28, 2002.

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recognize the Home as a department of State government, and to follow State statutes and procedures regarding the provision of services by other State agencies and departments.

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## Division of Licensing and Protection

The Vermont Division of Licensing and Protection (DLP) is the State agency that inspects nursing homes to insure compliance with federal and state standards for healthcare, life safety codes, and resident services. Federal law requires an unannounced inspection or “survey” at least every 15 months. DLP staff have conducted full surveys at the Home on the following dates:

April 20, 2005, May 26, 2004, and July 23, 2003.

In addition, DLP conducted complaint and incident investigations on:

July 5, 2005, June 27-28, 2005, March 4, 2005, December 13, 2004, and September 23, 2003.

These efforts were conducted in a timely manner, and DLP reports good cooperation between its division and Home personnel in creating corrective action plans, and revising them when necessary.

We observed that both DLP and the VA send inspectors to the Home to review the quality of healthcare delivery, but that reports by inspectors were not being shared between the two agencies, nor did the Home send reports of one agency to the other.

DLP administrators, as of July 2005, were not aware of the findings by the VA during a December 1-2, 2004 inspection. This inspection noted, among other findings, that:

1. “[The Home’s] infection control committee minutes did not reflect monitoring and discussion of infection rates. There was no documentation of outbreak response such as during the Norwalk outbreak last year, no evidence of a monitoring system, i.e., infection control rates plotted over time to detect spikes in rates.” Inspector observed “staff ... frequently contacting residents in hallway and not washing hands between contacts.”
2. “There were no records of infection control rounds, or documents which support an ongoing infection control program designed to investigate, control and prevent infection.”

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3. “The facility in general was clean; however, there were areas where dirt, insects, and dripping water were noted. The kitchen had broken refrigerator locks and the seals need replacement on some refrigerators and freezers.”
  4. The Home’s “discharge summary is improved but frequently the only summary of a multi-month stay is ‘improved.’ There is not adequate recapitulation of the stay in the discharge summary.”
  5. “Quality Assurance (QA) committee is active but minutes do not indicate results of actions taken in many instances.”

Based upon our inquiry, DLP said it would re-establish the process of reviewing quality reports by the VA inspectors from the White River Junction VA office. VA inspectors do review State inspection reports at the Home when they perform inspections.

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## Recommendations

- The Board of Trustees should develop a board education program designed to equip Board members with the tools and techniques to transform its performance to reflect governance best practices for non-profit organizations. This education, which should be ongoing as opposed to a one-time effort, should include specific training in the principles underlying internal control as described by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The objective of this training should be to insure that each Board member has a foundation of best practices in non-profit governance in order for the Board as a whole to perform risk oversight more effectively.
- The Board should also ensure that management establishes a set of risk management practices, and should continually reevaluate those practices and the Board’s own role in overseeing them.
- The Board should ensure that management has established through word and deed the desired values-based culture and that programs exist to deliver those values throughout the organization. Management should solicit the assistance of the Department of Human Resources in devising such a program and plan.
- In selecting key members of the management team, the Board and management, as appropriate, should ensure that their background screening effort focuses on selecting candidates with track records that

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demonstrate, through past performance, that they share values consistent with the Home's desired culture.

- Management should review and update, if necessary, its existing Code of Conduct, so that it is adhered to by all members of the organization including the Commandant, and ensure that everyone understands its relevance and importance.
- The Board needs to establish supplementary communications channels to assist it in identifying lapses in ethical behavior. It also needs to ensure that staff at the Home are aware of available channels to report such lapses (including the Department of Human Resources, the VSEA, the Office of the State Auditor, the Division of Licensing and Protection, etc.)
- Board members, with appropriate guidance and limitations, should be specifically charged with maintaining direct contact with residents, staff members, vendors and people in the community, to determine for themselves what attitudes and values are espoused by management and how those values are embraced by the rank and file staff. The Board should not be satisfied with relying exclusively upon management for its understanding of the control environment.
- The Board of Trustees should adopt a strong non-retaliatory policy for whistleblowers, and develop more effective means of speaking confidentially with employees who might, in good faith, believe that improper activity is occurring at the Home.
- The Home's by-laws should be amended to include the appointment of an Audit Committee with a specific charter that addresses the committee's role in reviewing the financial statements, understanding accounting policies and the quality of financial reporting, considering the effectiveness of the Home's internal controls, reviewing the auditor's proposed audit scope, exercising approval over the selection of the external auditors, meeting privately with the auditors and questioning them on their assessment of management's financial performance, reviewing the effectiveness of the Home's system on monitoring compliance with laws and regulations, reviewing the findings of regulatory agencies and any auditor observations, reviewing the process for communicating the code of conduct to staff members and reporting to the full Board on issues under its purview. The charter should specifically address committee membership, term on committee, relationships with the external auditors and frequency of meetings. The

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Audit Committee should develop, over time, detailed knowledge about the Home's programs, revenue sources, vendors, capital needs, industry risks, as well as regulatory and accounting issues.

- The Board should recognize that its role is to provide strategic leadership and oversight and that the role of management is to manage the organization. The Board should take care to avoid assuming an undue managerial role, something which is especially tempting as a reaction to misconduct by former managers. Board micromanagement could have the unintended consequence of undermining managerial authority, impeding action and creating confusion among staff as to roles and responsibilities. For example, although review and sign-off on the Commandant's travel expense reports by the Board president may be a natural reaction to the prior commandant's misconduct, many boards task the Audit Committee with periodic post review of management expenses as part of that body's oversight responsibility.

- The Board of Trustees should consider a range of "best practices" to improve internal Board operations, performance and accountability, such as:

A formal Board self-evaluation procedure to review and improve performance. The Board should create an inventory of skills necessary for an effective healthcare facility Board and provide information to the Governor about needed skills and prospective Trustees who might supply them.

A formal evaluation process for individual Board members that identifies strengths and suggestions for improvement. Such a process helps Board members and also can provide the Governor with input regarding reappointment of a Trustee to a new term.

- The Board of Trustees and the Commandant should negotiate memoranda of understanding with BGS, AHS, and DHR, as well as other relevant State departments, on the full range of responsibilities for each party relating to the operation of the Veterans' Home. These memoranda of understanding should be incorporated into the Home's procedures and adopted into work plans of the appropriate State agencies and departments as necessary.
- The Board of Trustees should amend its by-laws to include the specific steps to consult with and provide approval for BGS to undertake engineering and construction projects according to 20 V.S.A. §1720.

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## Part 3: Improvements in Efficiency and Cost Control Will Save Taxpayers Money in the Long Run

We observed that the Home should do more to address inefficiencies in important cost areas such as staffing, high overtime costs which reached \$835,245 in FY 2005, purchasing systems, laundry, use of consultants, aging of accounts receivable, and dietary, which contribute to high operating costs and budget pressure.

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### Budget Development

The Vermont Veterans' Home is a non-major component unit of Vermont State government for financial reporting purposes. Its financial statements are not part of the statements for primary government. However, its budget and expenditures are approved like other State agencies and departments. One key difference is that the Board of Trustees approves the budget request developed by the Home's management before it is forwarded to the Governor and the Department of Finance and Management.

The Home's fiscal year is that of general State government: July 1 to June 30. Management at the Home, working under budget guidelines set by the Administration and the Department of Finance & Management, develops a proposed budget request each fall. According to the Home's by-laws (Article VI, Duties of Committees, Section 2), the Budget and Finance Committee shall "Conduct an annual budget review and obtain board approval of the VVH annual budget before submission to the State Legislature."

After the Home submits its request to the Administration, the budget numbers may be revised before being forwarded to the Legislature as part of the Governor's budget package. The Home's maximum expenditure limits derive from the Legislature's final appropriation, for example, the FY 2005 appropriation.

#### **FY 2005 Appropriation by Vermont Legislature**

Sec. 162 of Act No. 122, 2005 Session

Vermont Veterans' home - care and support services	
Personal services	11,886,014
Operating expenses	2,761,777
Total	14,647,791

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Source of Funds	
General fund	969,037
Special funds	8,855,527
Federal funds	4,823,227
Total	14,647,791

Approximately 80 percent of expenditures relate to “personal services” – wages, benefits and contracted labor. Payroll detail is processed first by the Veterans’ Home and then by the Department of Human Resources in Montpelier.

We reviewed expenditures in non-payroll areas over several years, and observed that, with few exceptions, they were within appropriation limits and in general contributed to the effectiveness of Home operations.

Through interviews and reviews of reports by outside auditors and the State’s Division of Medicaid Rate Setting, we noted areas where operating costs might be reduced while maintaining or improving services.

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### Medicaid Pays the Veterans’ Home \$40 Per Resident Day More than Similar Sized Homes

The Vermont Veterans’ Home has the second highest Medicaid daily reimbursement rate of the 40 Medicaid-eligible nursing homes in Vermont. For the period of July 1, 2004 to January 1, 2005, the Veterans’ Home *per diem* rate was \$233.37,<sup>48</sup> highest in the State, but is now \$190.22 in part due to new guidelines related to the VA *per diem* payment to qualified residents of the Home and other factors.<sup>49</sup>

A budget analysis and expense comparison conducted in 2003 by the Home’s auditors, Kittell, Branagan and Sargent of St. Albans, concluded that “it is clear that the Veterans’ Home is spending much more per resident day than

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<sup>48</sup> Medicaid Nursing Facilities in Vermont Fact Book, Agency of Human Services, Division of Rate Setting, January 2005, page 2. The second highest Medicaid nursing home per diem was Copley Manor, at \$204.28.

<sup>49</sup> Federal law now prohibits the per diem payment from being used to offset Medicaid reimbursements. Further, the “upper limits test” applied by Medicaid which limits reimbursements to maximums allowed by Medicare, is a factor.

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comparable facilities with over 100 beds across the state.”<sup>50</sup> Adjusting for the Home’s lower census in 2002 due to a period when admissions were halted because of staff shortages and other issues, the report noted the Veterans’ Home still cost \$46 more per day than the average of other homes in Vermont with 100 or more beds. The report acknowledged the impact of a State unionized workforce with a more generous benefits package than other nursing homes, but noted that, despite these factors, there remained areas where the Veterans’ Home could achieve cost savings.<sup>51</sup>

More recent data from the State’s Division of Rate Setting (DRS), for the period of July 1, 2004 to November 30, 2004, indicated that the average statewide Medicaid nursing home reimbursement, minus an estimated \$30 of applied income, was \$104. The Veterans’ Home reimbursement rate, minus an estimated \$30 of applied income, was \$146, or \$42 higher.

Though we did not conduct a comprehensive management review, or perform detailed cost accounting in various departments, we did note possible areas below where efficiency of expenditures might be improved.

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### Computer Consultant Retention Violated State Policy

The Home hired the same computer consultant for the past five years. The most recent contract extension had a maximum payment amount of \$85,000 for FY05, with compensation set at \$65/hour weekdays and \$130/hour weekends. Bulletin No. 3.5 states, “Contractors should not be used to do the continuing work of the government nor when an agency of the State is able to provide quality services at competitive market rates.” Closer cooperation with the State’s Department of Information & Innovation (DII), may have lowered costs -- DII’s current rate for a variety of computer support services is \$60 per hour when contracted in 100 hour blocks – and may have provided better integration with state computer systems.

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### Outside Consulting

DRS, which monitors nursing home costs statewide, reports Fiscal Year 2004 total contract labor cost at the Veterans’ Home was 77 percent higher than the average at Vermont nursing homes.

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<sup>50</sup> FY 2004 Budget Analysis and Expense Report, Kittell, Branagan and Sargent, June 13, 2003, p. 5.

<sup>51</sup>Ibid., p. 7.

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Example: one part-time social services consultant earned \$50 per hour for a total of \$31,415 in Fiscal Year 2004, while a nearby nursing home paid \$25 per hour for this service, according to an interview with a Bennington nursing home administrator familiar with both positions. The Home's management replied that the position in question was a specialized one related to the development of its Alzheimer's program, which necessitated higher compensation.

One veteran Vermont nursing home administrator noted that the Home's dietary consultant worked 40 hours a week, far more hours than typical in other similar-sized homes. Expenditures for consulting dietician services in Fiscal Year 2005 were \$61,822.<sup>52</sup>

The following contracts were in place during FY 2005:

**FY05 Personal Service Contracts:**

- Physical Therapist Assistant: \$23.50/hour, 40 hours per week
- Licensed Physical Therapist: \$75/hour, 40 hours per week as needed
- Physical Therapist Assistant: \$25/hour, 20 hours per week as needed
- Physical Rehabilitation Services: \$30/hour, 20 hours per week as needed
- Alzheimer's Program consultant: \$400/day plus expenses, max \$25,000
- Dietary consultant: \$40/hour, max \$70,000
- Speech Therapist: \$60/hour, \$55,000 max
- Pharmacy Consultant: \$12,000 max, no hourly rate given
- Physician consults/admissions by telephone evenings & weekends: \$3,000/month, \$27,000 maximum
- Occupational Therapist: \$60/hour, max \$75,000
- Coordinating physician: \$190/hour, max \$35,000
- Painter: \$20/hour, max \$20,000
- Psychiatric MD Consults: \$100/hour, max \$15,000
- Relief Cook: \$11.25/hour, max \$23,400

Note: contracts may not be utilized to their maximum amounts.

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<sup>52</sup> Vermont Veterans' Home Financial Statements, June 30, 2005, p. 17.

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## High Overtime Costs

The Home accrued \$835,245 in paid and compensatory overtime costs in FY 2005, an average of \$32,124 for each of 26 pay periods. Labor costs are largely driven by such factors as the State agreement with the VSEA and State-mandated nurse-to-patient ratios, but nevertheless we note that the process for reporting, reviewing and processing payroll could be improved.

According to the Home's outside auditors, wages and benefits comprise approximately 80 percent of the Veterans' Home budget.<sup>53</sup> Thus, internal controls regarding the collection, verification and processing of payroll information, and the assignment and use of overtime, should be well-planned and functioning at a high level.

Accurate records for nursing staff are also important in providing monthly staffing ratio reports to DLP which monitors staffing. Nursing homes must provide "no fewer than 3 hours of direct care per resident per day, on a weekly average, including nursing care, personal care and restorative nursing care, but not including administration or supervision of staff." The official staffing ratio – hours of direct care per resident per day – is also a management tool to assure appropriate and cost-effective staffing. Higher than average staffing ratios could indicate unnecessary overtime or poor allocation of licensed personnel.

A 24-hour, seven-day-a-week healthcare facility will inevitably require some overtime hours, according to interviews with nursing home administrators, but too much overtime can break the budget and push up costs dramatically. In FY 2005 the Veterans' Home paid \$676,453 in cash overtime compensation, and \$630,524 in FY 2004.<sup>54</sup> The average hourly cost of paid overtime in FY 2005 was \$23.70. We note that not all overtime hours are compensated in cash; some are taken as "overtime compensatory time" where an employee can get paid time off in the future, usually at the standard hourly wage or "straight time." FY 2004 data showed 7,260 overtime hours were taken as "comp" time. If these hours averaged \$20 per hour, the wage cost would be \$145,200. In FY 2005, 6,904 overtime hours were taken as compensatory time. If these hours averaged \$23 per hour, the wage cost

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<sup>53</sup> Kittell, Branagan and Sargent, *op.cit.*, p. 3: "Salary and benefit expense is 80.99% of the total budgeted expenses at the facility."

<sup>54</sup> Department of Human Resources data.

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would be \$158,792 for a total overtime cost in FY 2005 of \$835,245. This is approximately 7 percent of FY 2005 personal services costs for the Home.<sup>55</sup>

We noted possible weaknesses in the Home's procedures in scheduling and in accurately recording and reporting hours worked, including:

- a. Some nurses are scheduled in advance for shifts that coincide with planned vacation days. The Home must then pay a nurse overtime (time and a half), plus straight pay for the lost vacation time. If the nurse happens to work any overtime on that day, he/she is paid double time for those overtime hours. This possibility is contrary to the State/VSEA contract which says, "It is agreed that, except in emergency or crisis situations, employees who are on annual leave, personal leave or compensatory time off shall be the last to be required to work overtime."
- b. The two key forms in payroll – swipe card detail, and the employee time sheet showing hours worked – are self-initiated. The time sheet is later approved and signed by a supervisor.
- c. Hours worked are entered manually in two systems, once at the Home, and once at the Department of Human Resources, increasing the likelihood of data entry errors.
- d. In addition, because of normal problems such as an employee forgetting to bring his/her swipe card to work, or forgetting to swipe in or out, there are 15-20 payroll exceptions per pay period. These add a level of manual correction to the process, again increasing the chance of data entry error.
- e. We noted that employees may occasionally swipe in a half-hour or more ahead of their shift, go to the employee lounge to meet someone or have coffee or otherwise relax until their shift begins. Employees do this so

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<sup>55</sup> Is this a reasonable percentage of overtime? An audit of the Wisconsin Veterans Home at King, Wisconsin, with 710 residents, indicated that in FY 2002-2003, nursing staff were paid \$1.2 million in overtime, representing 6.5 percent of nurse staffing-related expenditures. A June 2005 report by the North Carolina Center for Nursing reported a statewide average of 3 percent overtime for nursing staff, but that 41 percent of facilities reported zero overtime. Of those reporting, the rate was 5 percent. The interim administrator at the VVH reported to us that a 1-2 percent overtime percentage was typical in Vermont nursing homes. Please note that the 7 percent figure at the Home includes non-nursing overtime for kitchen workers, business office staff, and others. The Home also captures paid holidays as overtime, and in the past year faced a shortage of nursing positions; both these factors push up the overtime figures. We did not compare overtime at the State-run prison facilities or State hospital with that of the Veterans' Home. The Board President reported to us that he was told two years ago that overtime costs at the Home were in line with these other State agencies.

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they do not “forget” to swipe their card when their shift begins. People are paid based on signed two-week time sheets – not direct swipe card data – but such oddities in the system make supervisory review difficult.

- f. The pay period runs until Saturday night, but the swipe card detail is run on Friday nights due to time constraints. Supervisors thus do not have all the information on a printout they need to check timesheets if they have questions.
- g. Supervisors do not always verify time sheets to the swipe card system printout before approving them, and there is no process to assure that supervisors are verifying time sheets to swipe card detail; indeed, supervisors may approve time sheets several days before the swipe card detail has been printed out and available for checking. Thus, there is no practical incentive to do this important review.
- h. Overtime is supposed to be verified by each supervisor prior to signing employee time sheets, but this is a cumbersome process. Supervisors would have to examine at least three documents, remember the need for overtime, or rely on the swipe card detail.
- i. Significant overtime appears to be used by a relatively small number of employees. The State/VSEA contract notes, “Appointing authorities shall make a reasonable effort to distribute overtime as equitably as possible among classified employees...”<sup>56</sup>

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## Higher-Than-Average Food and Dietary Costs

The independent review of the FY 2004 budget by the Home’s outside auditors indicated the Home planned to spend 15 percent more in dietary operations than for similar-sized nursing homes in Vermont. The actual expenditure in this category had increased 12 percent at the end of the year. The former Commandant and others said that higher food costs were due to the fact that the residents, about 75 percent male, eat more and demand more. However, we have seen no empirical data to support this view.

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<sup>56</sup>Op. cit., Article 24, Sec. 2, “Distribution of Overtime,” page 43.

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In interviews, we heard that the Home's higher food operation costs could be due to several factors, including the expense of buying too much packaged food, high labor costs, menu design, and facility design. One administrator noted that the Veterans' Home has a full-time food buyer, a position that does not exist in other similar-sized homes where purchasing is typically done by the food service director.

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### Three Purchasing Functions

The Veterans' Home has three distinct purchasing areas – medical supplies, food, and all other purchases, each with a staff person doing the purchasing. The cost for salary and fringe benefits for the three positions is approximately \$125,000. The Home is required to work with the State's Purchasing and Contract Administration Division in BGS on commodity items and many other purchases. There may be excess administrative capacity in this function since most purchases are routine and comprise a relatively small portion of the annual budget. Raw food purchases average approximately \$35,000 per month and medical supplies approximately \$8,500 per month.<sup>57</sup> The Home should determine if purchasing duties could be performed by a single person, to free up staff for other duties.

In addition we noted that some office products were purchased outside the established State contracting system at a higher cost. Rather than utilize the State's contract with OfficeMax, Veterans' Home personnel purchased items from the local Staples store on account. Our Office selected a sample of invoices from that Staples outlet and asked the Purchasing Contract Administration Division at BGS to compare Staples prices on 14 items with those of the State vendor. The comparison showed the Home would have saved 17 percent using the State vendor on the selected items. The Veterans' Home has paid the local Staples \$33,023 in FY 2005.<sup>58</sup>

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### Duplicate Business Software Systems

The Veterans' Home business office operates two different and incompatible accounting software systems – the State's VISION accounting system, initiated July 1, 2001, and a new proprietary nursing home financial accounting system, Hi-Tech, which was purchased by the Home in 2004 to replace an outdated Mylex System.

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<sup>57</sup> FY 2004 State of Vermont Medicaid Cost Report.

<sup>58</sup> VISION QUERY, VT\_Payments\_AP\_BU\_Vendor, FY 2005.

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Despite spending \$32,000 for the purchase and initial support of the Hi-Tech software in FY 2005 through April 15, there is no interface with the VISION system. Thus, a significant amount of information on expenditures, less so for revenues, must be entered twice by the staff of the business office and financial statements from the two systems and must later be reconciled.

On February 12, 2004 Commandant Hollings estimated the cost of running dual systems at \$283,000 – 50 percent of business office salaries and benefits. The estimate did not have any detailed analysis regarding actual duties of individual business office employees, or a time study on the actual amount of time staff was inputting data in VISION, but it is clear from interviews that there is significant additional work required for two systems.

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### Questionable Allocation of Licensed Employees

Nursing home regulations require only licensed nurses to perform certain healthcare tasks. Vermont's staffing reports relate generally to the number of licensed nurses providing direct patient care. It is not best practice, typically, to have licensed nurses performing non-patient-care duties at higher salaries than would be paid to non-licensed workers. In interviews with current and former staff, we learned that there were licensed nurses performing clerical duties which could have been performed by non-licensed employees. The interim administrator noted, for example, that one licensed nurse was doing scheduling, and another was coordinating patient appointments for eye care, dental care and other specialists, typically done by a social worker in other nursing homes. "We could better use that registered nurse on the unit," she said.<sup>59</sup> Adjusting the job duties of some licensed employees might free up nursing capacity for direct care.

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### Labor-Intensive Maintenance

According to BGS, the former maintenance director and the former Commandant were not interested in discussing the feasibility of cutting costs by sharing maintenance personnel, equipment, training, etc. with maintenance staff at the State Office Building next door.

Further, the June, 2003 Kittell, Branagan and Sargent budget analysis suggested that most nursing homes of 100 or more beds provide maintenance with three or fewer full-time positions, while the Veterans' Home was

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<sup>59</sup> Interview with Carol Carey, May 13, 2005.

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budgeting for five maintenance positions. The President of the Board of Trustees reported to us that the size of the Veterans' Home, with multiple single-story wings and expansive grounds, along with the age of the overall physical plant, necessitates the current staffing.

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### Accounts Receivable

The Home missed out on revenue opportunities when aged receivables increased dramatically in the last several fiscal years. As of May 2005, receivables more than 120 days old stood at \$468,848. According to interviews and management comment, the bad debt was allowed to build up over several years due to staff turnover which reduced accounts receivable staff, and software changeover. The Home has recently tightened a policy to qualify payer sources of potential residents prior to admission so that services are not provided without an ability to pay or third-party insurer.

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### Little Incentive to Improve Efficiency

One of the most important financial controls in place to protect State funds and assets is the process by which Vermont sets the payment rates for Medicaid services. The higher the Medicaid reimbursement rate, the higher the contribution of State General Fund dollars required to match the federal government contribution.

The State's policy for Medicaid reimbursement acts as a disincentive to improving economy and efficiency at the Home by incorporating the current year's spending level into the Medicaid reimbursement level for the next year, compounding the impact of inefficiencies. The Veterans' Home is the only nursing home in the State whose Medicaid reimbursement rate is determined by total costs without regard to evaluating the resources generally needed to provide adequate care to its residents.

The State, through DRS, uses a periodic "rebasement system" to determine Medicaid reimbursement rates so that all the reasonable costs of operating nursing homes are reflected in the rate. The rebasement system was adopted to help impose a meaningful cost containment discipline on the State's nursing home industry.

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Vermont's Medicaid rates are based on "case-mix reimbursement standards,"<sup>60</sup> and "are intended to provide incentives to control costs and Medicaid outlays while promoting access to services and quality of care. This case-mix reimbursement system takes into account the fact that some residents are more costly to care for than others."<sup>61</sup>

In brief, a Vermont nursing home will typically go through a "rebasings" once every three years where allowable costs, reported annually, are calculated and a Medicaid reimbursement rate, subject to adjustments, is established for the next period. "Base year" costs are grouped into cost categories such as: resident care costs, indirect costs, property and related costs; nursing costs; and so on. The nursing care costs can be adjusted quarterly depending on changes in a facility's case-mix score.

The Legislature in 1999 changed this system for the Veterans' Home, legislating that Medicaid reimbursement rates for the Home "shall be determined retrospectively by the division of rate setting based on the reasonable and necessary budgeted costs of providing those services."<sup>62</sup> This process effectively establishes the previous year's costs as the basis for the next year's reimbursements. Thus, the system rewards the Home for inefficiencies and higher costs by allowing the Home to fully recover those costs in next year's revenues. ***This results in the Veterans' Home having one of the highest reimbursement rate for residents who, on average and compared to other Vermont nursing homes, require fewer resources than most other nursing homes for appropriate care (see Table 7).***

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<sup>60</sup>The State develops a "case-mix score" for each nursing home, adjusted quarterly, based on a complex evaluation system which quantifies the total resources needed to adequately care for residents with a range of care needs. The Vermont Veterans' Home has the lowest case-mix score in the State, which means that its residents, on average, require the least amount of resources for appropriate care than any other nursing home.

<sup>61</sup>"Methods, Standards and Principles for Establishing Medicaid Payment Rates for Long-term Care Facilities," Agency of Human Services, Division of Rate Setting, Nov. 1, 2002.

<sup>62</sup>Act No. 3, Sec. 1, of the 1999 Session.

**Table 7: Medicaid Nursing Home Rates and Case Mix Scores by Facility -- 2005**

Facility Name	Revised		Revised		07/01/2005	Case Mix	10/01/2005	Case Mix	
	01/01/2005	Case Mix	04/01/2005	Case Mix					
Bel Aire	\$ 142.70	1.1537	\$ 142.06	1.1282	\$ 137.55	1.0050	\$143.33	1.1058	
Bennington	\$ 154.41	0.8954	\$ 153.33	0.8922	\$ 153.73	0.9153	\$157.58	0.9740	
Berlin	\$ 160.34	0.9771	\$ 161.45	0.9924	\$ 145.15	1.0650	\$140.52	0.9899	
Birchwood Terrace	\$ 143.05	0.9869	\$ 141.96	0.9709	\$ 146.22	0.9968	\$147.17	1.0105	
Brookside - WRJ	\$ 148.95	0.8889	\$ 149.78	0.8996	\$ 155.65	0.9507	\$156.47	0.9609	
Burlington	\$ 163.33	0.9263	\$ 164.60	0.9532	\$ 162.22	0.9648	\$161.55	0.9560	
Cedar Hill	\$ 140.23	0.9880	\$ 140.00	0.9688	\$ 143.20	0.9872	\$142.80	0.9792	
Centers for Living & Rehab	\$ 164.15	0.9767	\$ 163.71	0.9776	\$ 170.81	1.0149	\$168.94	0.9895	
Copley Manor	\$ 226.21	0.9717	\$ 224.97	0.9746	\$ 224.89	0.9533	\$227.15	0.9773	
Crescent Manor	\$ 152.65	0.9031	\$ 153.62	0.9604	\$ 153.98	0.9499	\$162.39	1.0693	
Derby Green	\$ 126.26	1.0040	\$ 127.63	1.0304	\$ 129.97	1.0305	\$126.90	0.9698	
Eden Park - Brattleboro	\$ 173.66	0.9888	\$ 170.64	0.9489	\$ 176.79	0.9816	\$174.67	0.9542	
Eden Park - Rutland	\$ 146.87	0.9510	\$ 148.13	0.9894	\$ 149.98	1.0368	\$150.35	1.0384	
Franklin County Rehab	\$ 180.34	1.0161	\$ 184.27	1.0626	\$ 188.94	1.0759	\$186.96	1.0479	
Gifford	\$ 172.97	1.0431	\$ 172.97	1.0341	\$ 172.97	1.0367	\$172.97	1.0559	
Gill Odd Fellows	\$ 144.50	0.9365	\$ 143.38	0.9322	\$ 145.52	1.0170	\$144.47	1.0004	
Green Mountain	\$ 156.84	0.9387	\$ 158.61	0.9610	\$ 160.49	0.9670	\$160.15	0.9628	
Greensboro	\$ 169.70	1.0462	\$ 168.78	1.0233	\$ 176.14	1.0818	\$174.03	1.0521	
Haven Hlth Care-Rutland	\$ 138.90	0.9809	\$ 137.39	0.9565	\$ 133.09	1.0007	\$129.91	0.9643	
Haven Hlth Care-St. Albans	\$ 138.38	0.9692	\$ 135.31	0.9206	\$ 141.16	0.9642	\$140.03	1.0058	
Helen Porter	\$ 188.36	1.0121	\$ 185.01	0.9725	\$ 191.35	1.0006	\$180.68	0.9562	
Maple Lane	\$ 123.65	0.9652	\$ 122.94	0.9513	\$ 124.60	0.9400	\$125.93	0.9615	
Mayo	\$ 155.80	1.0066	\$ 156.52	1.0240	\$ 159.72	1.0344	\$164.37	1.0905	
McGirr	\$ 136.24	0.8575	\$ 135.69	0.8435	\$ 136.54	0.8807	\$134.41	0.8643	
Morrisville Center	\$ 149.18	0.9716	\$ 147.52	1.0169	\$ 147.69	0.9374	\$147.51	0.9346	
Mountain View	\$ 138.55	1.0105	\$ 131.12	1.0166	\$ 134.75	1.0241	\$136.05	1.0341	
Mt. Ascutney Hospital	\$ 162.00	0.9684	\$ 170.00	0.9574	\$ 170.00	0.9708	\$179.99	0.9630	
Newport	\$ 101.51	0.9236	\$ 100.93	0.9094	\$ 97.36	0.9730	\$97.38	0.9734	
Pine Knoll	\$ 130.86	1.0220	\$ 132.73	1.0328	\$ 135.00	1.0557	\$132.84	1.0195	
Prospect	\$ 137.74	1.0108	\$ 138.88	0.9476	\$ 137.25	0.9329	\$138.38	0.9563	
Redstone Villa	\$ 135.91	0.8980	\$ 135.90	0.9300	\$ 139.19	0.9389	\$137.82	0.9159	
Rowan Court	\$ 147.18	0.9715	\$ 145.28	0.9545	\$ 149.26	0.9814	\$147.61	0.9558	
Springfield	\$ 159.32	1.0355	\$ 155.59	0.9872	\$ 161.85	1.0345	\$155.24	0.9403	
St. Johnsbury	\$ 145.08	0.9905	\$ 142.98	0.9585	\$ 148.32	1.0038	\$145.73	0.9670	
Starr Farm	\$ 164.31	1.0503	\$ 164.85	1.0906	\$ 163.67	1.0451	\$166.90	1.0884	
Thompson House	\$ 162.87	0.9545	\$ 161.12	0.9366	\$ 168.66	1.0133	\$170.20	1.0295	
Union House	\$ 132.43	0.9796	\$ 136.27	1.0359	\$ 137.52	0.9897	\$137.28	0.9855	
Vernon Green	\$ 152.88	0.8881	\$ 155.31	0.9095	\$ 154.50	0.8956	\$154.88	0.8827	
Woodridge	\$ 175.88	0.9883	\$ 175.98	0.9960	\$ 176.03	0.9795	\$174.25	0.9539	
VT Veterans Home	\$ 190.22	0.8638	\$ 190.22	0.0000	\$ 190.22	0.0000	\$190.22	0.9502	
									<b>2005 Avg.</b>
<b>Simple statewide average</b>	<b>\$153.36</b>	<b>0.9728</b>	<b>\$153.19</b>	<b>0.9756</b>	<b>\$154.80</b>	<b>0.9904</b>	<b>\$154.65</b>	<b>0.9881</b>	<b>\$154.00</b>
<b>Statewide average without Copley</b>	<b>\$151.49</b>		<b>\$151.34</b>		<b>\$153.00</b>		<b>\$152.79</b>		<b>\$152.15</b>
(January and April rates are interim)									
Helen Porter, Eden Park Rutland and Vermont Vets Home January and April rates were adjusted									
Vermont Vets Home rate does not include VA payment									

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One drawback to a more careful review of the Home's costs stems from the fact that it is a State institution. Costs that are determined to be Medicaid-eligible are paid with approximately 60 percent federal funds. Costs that are determined to be ineligible for Medicaid reimbursement, and which are not paid by increases in other revenue sources, would have to be paid with 100 percent General Fund dollars from the State. There is a built-in disincentive for finding costs at the Home that are not eligible for Medicaid reimbursement.

It is worth repeating that the Home is staffed by State employees working under the State's umbrella contract with the VSEA which provides higher pay and greater benefits than private sector and other nonprofit nursing homes. Labor is the Home's greatest expense, but the Home's management says it currently cannot employ a variety of flexible staffing solutions available to other nursing homes in Vermont.

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## Recommendations

- The Home's new administrator, with adequate State support and in conjunction with Home employees, should conduct a comprehensive review of major operating cost areas to more clearly identify inefficiencies, their probable causes, and potential remedies that can lead to reduced operating costs without adversely impacting services.
- The Home's administration should work with the Agency of Human Services, the Department of Human Resources and the Vermont State Employees Association (VSEA) to identify mutually-agreeable steps that could help reduce overtime costs, better address staffing needs, and better fit work rules to the requirements of a 24/7 healthcare facility. One prime area of exploration should be whether a separate bargaining agreement or amendment might be better suited to the demands of this work environment, in much the same way there are special provisions governing State Police and Department of Corrections employees.
- We also recommend that the Home work with the Department of Human Resources on a comprehensive review of payroll procedures to insure an efficient process with a high level of integrity and accuracy in the reporting, reviewing and approval of hours worked.<sup>63</sup> The daily staffing

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<sup>63</sup> DHR is planning a major overhaul of payroll processes in 2006 which will include the Vermont Veterans' Home.

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reports to meet state guidelines could be computerized to improve accuracy and timeliness.

- In fairness to the other 39 Medicaid-eligible nursing homes in Vermont, and to promote more efficient expenditures of public funds, the Legislature should require the Veterans' Home Medicaid reimbursement rate to be based on the case-mix reimbursement system used for all other Medicaid-eligible nursing homes.

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## Part 4: There May Be Opportunities to Better Serve Vermont Veterans

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### The Veterans' Home Serves Only 20 percent of Vermont Veterans in Nursing Homes

Neither the State nor federal government tracks the number of veterans in Vermont's 40 Medicaid-eligible nursing homes. To give perspective to this report, we conducted a telephone survey of Vermont Medicaid-eligible nursing homes to find out how many veterans were in Medicaid-eligible, long-term care institutions.

As of July 2005, there were 451 veterans in the State's 40 Medicaid-eligible nursing homes, including 89 residents originally from Vermont (19.7 percent) in the Veterans' Home in Bennington. At the Veterans' Home, a large majority of Vermont veterans – 82 percent – were originally from only three counties: Bennington, Rutland and Windham.

Of the 451 veterans in Vermont nursing homes, 362 of them (80.3 percent) were in homes other than the Veterans' Home.<sup>64</sup> Veterans in the Bennington Home can receive significant federal financial assistance through the VA to support their care.

We believe there may be exciting opportunities to better serve the majority of Vermont veterans for whom care and residency in Bennington is not an option.

For example, beginning on October 1, 2005 DAIL has assumed the responsibility for enrolling Medicaid-eligible individuals for assistance in Medicaid-eligible nursing homes. To be effective, DAIL staff involved in this process should receive the best training available to better understand the medical, pharmaceutical and long-term care benefits available from the U.S. Department of Veterans Affairs. Helping more Vermont veterans gain access

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<sup>64</sup> The 362 figure includes 17 veterans who were receiving care in a Vermont nursing home under a contract with the VA office in White River Junction.

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to their federal benefits could help the Vermont Medicaid program save money while providing stronger support to Vermont veterans.

Indeed, an audit by the Missouri State Auditor found that approximately 45 percent of veterans in Medicaid-eligible nursing homes in Missouri were potentially eligible to obtain some medical and prescription drug services through the VA.<sup>65</sup> The audit identified opportunities for the State to save approximately \$5.5 million or more in Missouri State Medicaid benefits if veterans chose to obtain medical services from the VA rather than through the Missouri State Medicaid program. After the audit, the Missouri Veterans Commission agreed to help identify and notify veterans who are potentially eligible for VA benefits and to assist them in enrolling in the VA healthcare system.

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## Hundreds of Vermont Veterans Fail to Receive VA Payments

Further, eligible veterans at the Home in Bennington can receive a VA *per diem* payment of \$59.36 to help cover the cost of their care, which has been as high as \$233 per day in the past year. Approximately 135 veterans at the Vermont Veterans' Home qualify for the *per diem* payment, resulting in approximately \$2.9 million in annual revenue to the Home.

Based on discussions between our Office and Vermont and VA nursing home program administrators, opportunities may exist for eligible veterans in Northern and Central Vermont to receive the VA *per diem* stipend if appropriate Federal and State standards can be met.

Other states have resolved the need to serve veterans dispersed by geography by siting several Homes in different parts of a state. For example, the State of Maine has five Veterans' Homes. For a small state such as Vermont, the option of operating a number of stand-alone facilities is challenging due to the high costs involved. But there is potentially another option, which appears to have promise.

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<sup>65</sup> *Containing Costs in the State's Medicaid Program for Claims Paid for Veterans*, Report No. 2004-81, Office of the Missouri State Auditor Claire McCaskill, September 29, 2004. [www.auditor.mo.gov](http://www.auditor.mo.gov). The report notes that, under the Veterans' Health Care Eligibility Reform Act of 1996 (Public Law 104-262), veterans can receive numerous free medical benefits through the VA health care system, including nursing home care to eligible veterans, such as those with a service-connected disability rated at 70 percent or higher. Enrollments in the VA health care system are available to the extent Congressional appropriations allow, however.

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The State could create small, satellite Veterans' Homes, for example, by reaching agreements to lease, purchase or otherwise obtain control over defined portions, such as a wing or floor, of one or more existing private nursing homes in Central and Northern Vermont. By memorializing these agreements under appropriate legislation, the General Assembly may thus satisfy federal authorities that these smaller homes qualify as State Veterans' Homes in which veterans could be eligible for the same level of VA support they would receive at the Home in Bennington. Such a facility would have to meet stringent VA standards of care and residency – from food to social work services to medical care.

If a satellite facility becomes a reality, the additional stipend payments would help veterans pay for their care, increase support for veterans-related programs, and cut State costs. If 50 additional Vermont veterans who received the VA stipend of \$59.36 per day, it would mean approximately \$1.1 million per year in federal support per year, perhaps reducing the outlay of Medicaid and corresponding State General Fund matching funds.<sup>66</sup>

There is a limit on the number of *per diem* payments a state may receive, but VA regulations allow additional slots if a second facility is located at least 110 miles from an existing State Veterans' Home where there is a population of veterans to serve. An additional facility in central or northern Vermont could meet this requirement and permit the State to apply for additional subsidized beds.

This is a complex area which needs further study, but preliminary discussions with State and VA program administrators, including those officials of the VA in Washington who are directly involved in approving new Veterans' Home applications, are encouraging.<sup>67</sup>

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<sup>66</sup> The use of the VA per diem payments to offset State Medicaid payments has changed. Public Law 108-422, passed by Congress as the Veterans Health Improvement Act of 2004, states, in part: SEC. 202. TREATMENT OF DEPARTMENT OF VETERANS AFFAIRS PER DIEM PAYMENTS TO STATE HOMES FOR VETERANS.

Section 1741 is amended by adding at the end the following new subsection:

'(e) Payments to States pursuant to this section shall not be considered a liability of a third party, or otherwise be used to offset or reduce any other payment made to assist veterans.'

The State has reduced the Home's Medicaid reimbursement rate to \$190.22 per day and no longer calculates the per diem payment to reduce net Medicaid payout. However, the Home continues to bill the VA for per diem payments and applies all revenue to the general operating budget.

<sup>67</sup> This Office has recently met with DAIL Commissioner Patrick Flood, and has had telephone conferences in October with three administrators at the VA central office in Washington.

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## Recommendations

- The long-term care challenge for Vermont veterans has many aspects. One is the increasing trend of veterans to demand – as other older Vermonters do – healthcare and nursing home options that are close to home and family. Another is the high cost of institutional care versus long-term care provided at home or community-based settings. Yet another is the high cost of the Veterans’ Home, its continuing vacancies, and the fact that a significant number of its out-of-state admissions convert to Vermont Medicaid.
- Further, under Vermont’s new Long Term Care Medicaid Waiver agreement with the Federal government, every Medicaid dollar provided to such out-of-state conversion cases will mean one dollar less available for needy Vermonters. The Department of Aging and Independent Living should report to the Governor and Board of Trustees regarding possible impacts of out-of-state residents in nursing homes converting to Vermont Medicaid.
- We recommend that the Governor appoint a body, such as a **Commission on Long-Term Care for Vermont Veterans**, or an equivalent body, which could review the range of opportunities that exist to improve the care, coordination and financing of long-term care for all Vermont veterans, and which should specifically explore the feasibility of legislatively creating satellite Veterans’ Homes in central and northern Vermont. This body should report to the Governor, Board of Trustees, relevant State departments, and the Legislature on its recommendations.

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## Agency Comments and Our Evaluation

The President of the Board of Trustees of the Vermont Veterans Home provided a written response to our draft report, which is reproduced in Appendix II.

The President cited 27 recommendations in the report and described an action plan and timetable to address 24 of them. The President disagreed with recommendations for the Board to evaluate its members periodically and for the State to use the case-mix system for Medicaid reimbursement. The President also noted that one recommendation – to educate the Governor and

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the Board of Trustees about the impacts of out-of-state residents converting to Vermont Medicaid – was not applicable to the Home’s action plan and will be carried out by the Department of Aging and Independent Living.

We have modified the final report to reflect comments by the President regarding several issues:

- We noted that the Commandant circumvented reimbursement procedures, not the Veterans’ Home per se.
- We noted the President’s response that the DRS comparison of heating costs among various nursing homes did not include a square footage factor.
- We noted that the Home has ended the practice of commingling employee recognition funds and donated funds.
- We noted that the Home has received a first-phase financial commitment for a new geothermal heating system which will improve energy efficiency.
- We noted that the Board of Trustees, through the President, immediately requested an investigation when the Board learned about improper reimbursements paid to the Commandant.
- We agreed that a Code of Conduct has previously been adopted at the Home, and altered our recommendation to suggest that this Code be reviewed by the Board and revised, if necessary.
- We agreed that in recent years the Home’s Finance Committee met privately with outside auditors, but retained our recommendation that the Home establish a separate Audit Committee to hire and direct the Home’s outside auditors.
- We also noted the President’s statement that the Home cannot create new employee positions, and so must use personal service contracts with outside consultants such as physical therapists, to meet healthcare standards.

We are pleased that the Home supports a key recommendation to study the feasibility of creating Veterans’ Home facilities in Northern and Central Vermont to better serve numerous veterans in those areas who require nursing home services. Such facilities could also potentially receive more federal support for Vermont veterans and lower costs for Vermont taxpayers.

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The Board and management of the Home have made clear commitments to address many issues and recommendations in the report. We support these efforts that aim to use tax dollars in the most efficient way to support veterans who have given so much to this country.

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Any questions or comments about this report can be directed to the State Auditor's Office at (802) 828-2281 or via email at [auditor@sao.state.vt.us](mailto:auditor@sao.state.vt.us).

This audit was performed under the direction and supervision of Thomas G. Gorman, CPA, Deputy State Auditor, with assistance from George Thabault, Chief of Special Audits & Reviews, and Senior Auditors Denise Sullivan, CPA, and Elaine Welch.

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# Appendix I

## Confidential Appendix

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**Information in appendix I is exempt from public disclosure according to provisions outlined in 1 V.S.A. 317.**

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## Appendix II

### Agency Comments

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Randolph D. Brock  
State Auditor  
State of Vermont  
Office of the State Auditor  
132 State Street  
Montpelier, Vermont 05633-5101

Dear Mr. Brock:

The Board of Trustees of the Vermont Veterans' Home welcomes this opportunity to respond to your audit report. The Board is particularly pleased to learn that there have been no new findings of additional financial wrongdoing by management, that there are no instances of kickbacks from vendors, and that the dollar amount of the malfeasance is modest.

As you realize, when the Board was informed on December 15, 2004 that there were allegations of inappropriate travel expenditures by the Commandant, we immediately requested the State Human Resources organization to conduct an investigation into the allegations. Subsequently, the Board was advised of the results of the inquiry, and the Commandant resigned on January 31, 2005.

Additional comments are submitted in an effort to ensure clarity in the report so that State agencies with policy responsibilities involving the Home, and the public at large, have an informed understanding of the financial issues at the Home. These comments are sequential as presented in your draft. We begin with the cover letter forwarding the audit report to Governor Douglas.

The Vermont Veterans' Home is pleased with the audit conclusion that quality of healthcare and social services provided to the residents we serve at the Home has improved since 1999.

Furthermore, the Board thanks the Auditor of Accounts for bringing to light the extent of our financial issues in a more timely fashion than would have been noted by new staff. Additionally, issues regarding resident and donated funds have precipitated the need for tighter controls in these areas.

The Vermont Veterans' Home is a 184 bed skilled nursing facility that is primarily funded with Medicaid and Medicare dollars and with a small amount of the facility's budget paid with monies allocated through the State of Vermont's general fund. It is true that the Vermont Veterans' Home is not funded as other nursing homes are, via a "case mix index". A "case mix index" is nursing home jargon for a score that is given to each resident based on the amount of care they need. Unfortunately, the tool that is used to measure that care does not increase the "case mix" score to reflect needs caused by dementia, psycho-social or psychiatric issues, such as post traumatic stress syndrome. These issues very often impact our very special veteran population. In fact, nearly 75 percent of our residents have a diagnosis of dementia that cause care needs that are not captured in a "case mix" score. This helps to explain why our case-mix ranking is one of the lowest in the State.

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## Appendix II

### Agency Comments

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The State of New Hampshire funds its Veterans' Homes with only general fund dollars. We understand that the State of Vermont moved away from the general fund to Medicare/Medicaid dollars in the 1980s because it would leverage the Home's expenses so the State could receive Federal funding, thereby reducing appropriations of State funds for the Home. It is generally true that the Home has higher costs. One major cause of higher costs is from benefits paid to State employees when compared to non-State employees at other nursing homes. The Home has no control over these costs because the State and VSEA negotiate annual increases and benefits. State benefits paid by the Home are 38% of wages as compared to area nursing homes that have benefit rates of 21-26%. The Home's wages and benefit costs equal approximately 81% of the total Vermont Veterans' Home annual budget.

We have taken note of the discussion in the letter to the Governor that there may be opportunities to situate an annex or wing at least 110 miles from the Vermont Veterans' Home in Northern Vermont. In conversations with the Veterans Administration (VA) we have been told that the only way we can obtain VA funding for additional beds in Vermont will be to locate them at least 110 miles from the current Home. We support a review or study of this proposal. We also note for the record that the VA estimates that Vermont veterans aged 60 and older will number in excess of 29,000 in 2010, and 24,000 in 2020. The Home is licensed to provide a total of 184 nursing home beds and 24 domiciliary beds.

On page 8, there is a discussion about the passage of 20 V.S.A., Chapter 87 in the 2004 legislative session that concludes: "...one of the primary areas of ambiguity in State law regarding accountability of the Home was not fully addressed." Actually, this matter was addressed within the legislative working group, and it was recommended that the relationship (the Home is attached to AHS for administrative support) be continued. The legislature agreed when it passed the new statute in 2004.

On page 15, the report says "Thus, the Veterans' Home circumvented the required review of travel expense reimbursements by the Department of Human Resources." This sentence should be modified to read that the "Commandant circumvented" in lieu of "Veterans' Home."

On page 17 the audit report states, "The Division of Rate Setting noted that a survey of per diem heating costs at similar sized Vermont Nursing Facilities showed that the per diem heating costs at the Vermont Veterans' Home are double the average in this peer group." Simply comparing the bed size of facilities is not the best comparison. In order to review per diem heating costs, a building of the same square footage should be used in the comparison. It may be worthy of note that the Home has developed plans to reduce heating costs, and provide air conditioning to the facility, at lower overall energy costs than today through the use of geothermal technology. The replacement of old and inefficient boilers with this technology will reduce costs even though air conditioning is being added. (See comment re pages 20 and 21 below.)

On page 19, it may be worthwhile noting that in May 2004 the Board of Trustees terminated the practice in the business office of allowing an employee recognition fund, managed by employees with

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## Appendix II

### Agency Comments

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their own funds, to be commingled with the donated funds. The employee recognition fund was removed completely from the donated funds at that time. Thus, the donated funds accounts were used solely for the benefit of residents at the Home. The Board's Budget and Finance Committee reviews the donated funds account activity monthly.

Regarding pages 20 and 21, the Board would like to note that it began working with the BGS organization in 2003 to review boiler needs at the Home. Subsequently, an emergency and temporary boiler was installed to replace one of three old and worn out boilers. In 2004, the Board requested funding from the Veterans Administration to help pay the costs of replacing the remaining two boilers at the Home. When approved, the VA will pay 65% of the costs, and the State 35%. A capital request was made through BGS to the legislature for FY06 and submitted in the winter of 2004. In the spring of 2005, at the recommendation of the State's BGS organization, the boiler project was revised to consider geothermal technology that would allow heating and air conditioning at the Home in an environmentally friendly way. The VA concurred in the concept and indicated that renovations would also be acceptable in a project such as this. The project was changed to life-safety priority because the Home must have heat in the winter and the boilers were in bad shape. (In fact, they failed an insurance inspection in the summer of 2005 and are being replaced today.) Also, in the spring 2005, a feasibility study was conducted to determine if the water table around the Home was sufficient to support geothermal technology. That study was completed by BGS before June 2005 and determined that geothermal was an excellent option for the Home. The legislature appropriated \$750K toward the project in FY06, and on October 12, 2005, the VA issued a letter of commitment for \$1.7M for phase one of a three-phase project. The Home has requested \$995K in a capital submission for FY07 that includes heating, air conditioning, and renovations to the Home, and requests for a matching grant of about \$2M has been made to the VA for phase two of the project. This project will provide a like-new facility that will sustain a home for veterans in Vermont for another twenty to twenty-five years.

On page 27 and 28, there is inappropriate conduct attributed to the Commandant that was known to employees of the Home, but not to the Board of Trustees. The conduct may also have been known to the State and VSEA through financial reporting and meetings with employees. The Board believes that State agencies share responsibilities for oversight at the Home. We note that the State changed its policy on expense reporting this summer. We do not believe that oversight and effectiveness of risk management is solely a Board responsibility. We believe that the State shares in this responsibility.

It must be recognized that the Board of Trustees is comprised of volunteers who bring a variety of skills and experiences to their role of providing policy direction and overall governance to the Home. But, at the end of the day, they are still volunteers. It is unrealistic to impose on these volunteers requirements for expertise and training beyond that which can reasonably be expected.

Further, there is a contradiction between the Board's role as a policy body and the level of detailed review and cross checking which is suggested as a Board activity. It should be remembered that it was the Board that requested an investigation upon notice from the VA that there were possible violations of State policy in expense submissions by the Commandant.

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## Appendix II

### Agency Comments

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We also believe that the listing of measures on page 27 already exist at the Home. There is a Code of Conduct, individual Board members have always been approachable by employees, the Board's Personnel Committee met with the Personnel Director frequently, and there was a process in place to request investigative and enforcement assistance from the State.

On page 34, the audit report says: "The Board's Finance Committee was most involved with the outside auditing firm, but until recently did not meet privately with the auditors to review possible issues for actions." We believe this is incorrect. The Board's Budget and Finance Committee has met privately with the outside auditing firm every year since 2001. Meetings have been held in St. Albans, Rutland, and Montpelier (2 years). These off-site meetings were held to review the audit findings, management letter, and obtain recommendations concerning the Home. In 2003, the Board requested a special study of the Home's budget, because the Commandant felt there were insufficient funds to operate the Home in the next fiscal year. A special consultant was hired by the State, and the outside audit firm participated, and they concluded that funding for the Home was adequate. That meeting was held in Waterbury. The Commandant was informed of the results and required to adhere to the approved budget. This year, the Board requested the outside auditors do a special review of accounts receivables at the Home to verify actions taken in the business office since February. We last met with the auditors in Rutland in November 2005.

While the Board's Budget and Finance Committee has an audit subcommittee, we agree that improvements can be made in its operation. We agree it would be helpful if a couple of CPAs or auditors were appointed to the Board so they could serve on the audit subcommittee. We have doctors, a lawyer, an engineer, a former licensed nursing home administrator, nurses, former legislators, and operational personnel on the Board, but there are currently no professional financial personnel other than an investment advisor and fraud examiner on the Board. A CPA has been nominated to the Governor but has not been appointed to date.

On pages 38-39, we would note that the use of geothermal technology to provide cost effective heating and air conditioning to the Home provides a unique opportunity to upgrade our infrastructure and renovate the Home with the VA paying 65% of the costs.

On page 41, it should be noted that the VA inspectors do request copies of the Office of Licensing and Protection survey reports and are given them during the VA inspections. The Office of Licensing and Protection reviews the Homes records during their inspections and has access to the VA reports.

On page 45, we believe that the report should note that expenses have increased in a number of areas, many of them outside of the control of the Home. For example, the State levies a bed tax on the Home. In FY1999, that tax was \$184,000. In FY2005, the bed tax was \$676,395, or more than triple the 1999 expense.

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On page 46, we note that the computer consultant contract was allowed to expire in May 2005. The Home is currently in the process of hiring a full-time computer technician who will be assigned to upgrade systems, and plan for future technology acquisitions to assist care providers at the Home. The State Department of Information and Innovation charges the Home \$85.00 an hour and will be called upon as appropriate.

On page 47, the data used related to the social work consultant is incomplete. First, the average rate for a social work consultant is well above \$25.00 per hour. Additionally, the social work consultant that you refer to was in place to assist in the development of the now nationally acclaimed dementia program at the VVH. This accomplishment was not something “any” social work consultant could have met.

On page 47, reference is made to FY05 Personal Service Contracts. It should be noted that the Home is not able to create positions. The State dictates to the Home its number of employment positions, creating a need to execute contracts to meet Federal and State regulations in the care of our residents.

On page 48, there is a discussion of high overtime costs. The Home has 210 employees. Our pay period ends on bi-weekly Saturdays at midnight and must be in the mail by the following Tuesday. The Home follows the policies set forth by the State. It is difficult to compare the Home’s payroll and overtime costs to other nursing homes for several reasons. First, all staff are hourly. In other nursing homes, the department heads, the highest paid staff, are salaried. That is not the case in the Home’s union environment, which is our reality. Additionally, other nursing homes often have outside “nursing agency” (temporary contract personnel) to fill vacancies resulting from absences and these costs are not captured as “overtime.” The Home does not use a nursing agency and our vacancies are filled through overtime. Every nursing home copes with staffing issues. The Home is no different except that the staff is unionized with a generous time-off package. By contract, the staff may use what sick time they have available, may call in up to an hour after the start of their shift, which in turn creates a need to backup the shift with no notice. Hence, more overtime costs.

On page 50, we would note that the recent VA inspection of the Home indicated that the Home had an excellent dietary program, and that interviews with the residents showed praise for the food served at the Home. Anyone who knows the elderly, and veterans in particular, understands how critical they can be regarding institutional food. It is a credit to the dietary department that our residents complimented the dietary program.

Regarding page 59 the VA has advised that State ownership requirements exist if VA funding is used to renovate or purchase a nursing home for use by veterans. Further, although the VA stipend would be available for veterans located in Northern Vermont, the added costs of salary and benefits for State employees might make the proposal for a separate facility in Northern Vermont cost neutral or even more expensive than using private nursing homes. Lastly, the Board has observed that the Home and State have a weak to non-existent marketing program to advise veterans in Vermont of their eligibility and benefits offered by the Vermont Veterans' Home. The Home's Administrator is currently tasked with development of a marketing program that will be implemented during calendar year 2006. There

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## Appendix II

### Agency Comments

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are thousands of eligible veterans in Vermont. One detriment to an effective marketing program is the fact that the State does not have a mailing list, or any current listing, of Vermont's veterans.

In April 2005 I indicated "internal controls can be circumvented ... by collusion of two or more people, or by management override of the control." The fact that the senior management person at the Home was the person who failed to follow State policy and claimed he had the authority to do so, precipitated this abuse. The State and the Home have instituted additional controls in an effort to ensure this does not happen again.

Sincerely yours,

Charles J. Bushey, President  
Board of Trustees

# Appendix II

## Agency Comments

### Attachment to Agency Comments

Topic/Recommendation	Plan	Date
1. Restitution	Letter to State requesting they continue to seek restitution.	By 12/15/2005
2. Prohibitions on conducting private business on state time or with state equipment.	The Personnel Director will provide oversight and report any violations of State policy. Employees will be reminded that State equipment may not be used for personal purposes.	15-Dec-05
3. Security controls will be reviewed to reduce risk of equipment and supply theft at the Home.	Review and revise the inventory control system at the Home, conduct periodic inventories of equipment and improve the property tag system at the home.	1-Mar-06
4. Bonus payments per Article 13 of VSEA contract shall be approved by the Administrator and Pres.of Board.	Bonus payments for outstanding performance for direct report employees of the Administrator must be approved by the Administrator and the Chair of the Human Resources Committee. Bonuses for other employees will be approved by the Administrator before submission to the State.	Immediately
5. Laptop computers to be physically and logically protected.	VVH has 3 laptops. All present and future VVH laptop computers will be physically and logically protected.	As soon as the new computer tech is hired.
6. Abide by State procurement policies and rules.	Update and expand the Home's purchasing policy and ensure it conforms to State policy.	15-Apr-06
7. A monthly reconciliation of the resident trust fund and resident petty cash fund should be conducted.	The facility will purchase accounting software to assist with reconciliations. Staff will be given guidance and training in the conduct of monthly reconciliations. A report of reconciliations will be made to the Administrator monthly.	1-Mar-06
8. Donations in the name of a deceased resident should be identified to their surviving family members.	Families of deceased residents, where appropriate, will receive notification of those who give donations in memory of a family member.	Immediately

# Appendix II

## Agency Comments

Topic/Recommendation	Plan	Date
9. Home should work closely with BGS regarding capital needs and repairs.	VVH will coordinate with BGS to conduct a capital needs assessment related to the heating, cooling, and renovation project. The VVH will work closely with BGS on capital needs, an energy audit, and other projects at the Home, as has been the case since the new Administrator was hired in June 05.	By end of FY06 4th quarter
10 DAIL should report to the Governor and Board of Trustees regarding possible impacts of out-of-state Medicaid conversion	The VVH will continue to follow State and Federal law on this matter. The VVH has no authority to take action on this recommendation.	N/A
11. Develop a Board of Trustees education and training program.	Budget for outside expertise and arrange for special briefings for Board members. Utilize our financial auditors, the Auditor of Accounts office, and other State entities to help identify resources to provide periodic guidance and training to the Board. Contact other State Boards to determine their education program/s.	FY07
12. The Board should establish a set of risk management practices and review them periodically.	The Board will seek additional guidance from the Auditor of Accounts and our outside financial auditors. Policy and By-law changes will be designed to improve risk management practices of the Board and Management.	FY07
13. The Board and Management should maintain an ethical culture at the Home that applies to all employees.	Management will work with the Department of Human Resources, with VSEA, and with the Board to foster a culture in which ethics, whistleblowing, and "doing the right thing" become routine and normal practice.	4th Qtr, FY06
14. Management should screen applicants to ensure they share values consistent with the Home's culture.	The Management team will continue to screen applicants to ensure they have ethics, integrity and discretion in keeping with the VVH Code of Conduct.	Immediately
15. Management should establish a code of conduct that applies to all employees of the Home.	The Code of Conduct already exists as work rules in the Home's employee handbook. Education regarding ethical issues will be given periodically to employees.	On-going
16. The Board needs to establish supplementary communications channels to assist in identifying lapses in ethical behavior.	The State and its Departments, and the Board, will work at improving programs to ensure that employees know how and to whom to report lapses in ethical behavior by State employees. The new whistleblower policy will be published, and training given.	4th Qtr, FY06

# Appendix II

## Agency Comments

Topic/Recommendation	Plan	Date
17. The Board needs to determine the attitudes and values being espoused by employees of the Home and the community.	A useful feedback method for the Board is a good idea. The Board will study our options in this area.	Calendar Year 2006
18. Develop a strong whistleblower and non-retaliatory policy.	The policy has been written and is currently being converted into work rules at the Home. An objective of the new policy and rules will be to encourage all employees to feel comfortable about reporting ethical issues to Management or the Board and that no retaliation occurs as a result of such reports.	3rd Qtr, FY06
19. Revise By-laws of the Board to ensure a strong audit committee exists.	The By-laws Committee and the Budget and Finance Committee of the Board will work together in crafting revised By-laws that enhance and improve audit committee responsibilities in line with the detailed recommendations in the audit report.	Q4, FY06
20. The Board needs to recognize its role of providing strategic leadership.	The Board is currently comfortable that it recognizes its role and will continue to provide strategic leadership to Management of the Home.	
21. The Board needs to engage in "best practices" by doing self-evaluations and formal evaluations of Board members,	The Board does not agree. It is a volunteer organization. There are professionals on the Board such as doctors, a lawyer, an engineer, a former nursing administrator, nurses, etc. who are available to the Administrator to share their expertise as requested. No Board member has been implicated in the recent wrongdoing of a senior manager at the Home.	N/A
22. The Board and Administrator should work with State agencies to improve relationships and responsibilities.	The Board and Home Management will work toward developing a better understanding of State entities and identify their full range of responsibilities re the Home. We will strive to seek better cooperation with State agencies. Where appropriate, we will seek written agreements and Memorandums of Understanding.	Calendar year 2006
23. The Board should amend its By-laws to include the specific steps it will take to consult with BGS for engineering and construction projects.	The Board will meet with BGS to coordinate an understanding of consultations desired for engineering and construction projects in accord with 20 V.S.A., Section 1720. The By-laws will be reviewed to determine if changes are needed.	4th Qtr, FY06

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## Appendix II

### Agency Comments

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Topic/Recommendation	Plan	Date
24. Improve operating efficiencies and reduce costs	The Home will continue to review operating costs and identify inefficiencies, their causes, and determine where savings can be obtained. No changes will be made if it means that the services provided to veterans would be adversely impacted.	4th Qtr, FY06
25. Work with VSEA and the State to reduce overtime.	Also see B. above re overtime. Management will work with the Agency of Human Services and the Department of Human Resources to seek ways to reduce overtime costs. New ideas for work rules in a 24-7 environment will be sought, and consideration will be given to a separate bargaining agreement between VSEA and the Home.	Calendar year 2006
26. Payroll review.	The Home should review payroll procedures to see if there are more efficient and reliable processes available	4th Qtr, FY06
27. The Home should use the "case-mix" reimbursement system.	We do not concur because it would adversely impact the care and services for Vermont's veterans.	N/A

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## Appendix III

# Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

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Kittell Branagan & Sargent

154 North Main Street  
St. Albans, Vermont 05478  
802 524-9531  
802 524-9533 FAX  
Burlington 802 893-4741  
Vermont License #167

### INDEPENDENT AUDITOR'S REPORT

Board of Trustees, Vermont Veterans Home  
and Auditor of Accounts, State of Vermont  
Bennington, Vermont

We have audited the accompanying basic financial statements of Vermont Veterans Home (a component unit of the State of Vermont) as of and for the years ended June 30, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Vermont Veterans Home's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

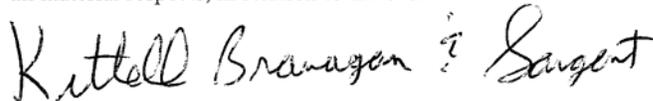
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Vermont Veterans Home as of June 30, 2005 and 2004, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2005 on our consideration of the Vermont Veterans Home's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audits have been made primarily for the purpose of forming an opinion on the basic financial statements taken as a whole. The Departmental Expense Schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.



St. Albans, Vermont  
October 11, 2005

*certified public accountants*

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## Appendix III

# Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

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Vermont Veterans' Home  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2005

### Fiscal 2005 Highlights

During the year ended June 30, 2005 the Vermont Veterans' Home provided over 60,000 resident days of care to Veterans and eligible family members, a decrease of 2.9% from the prior fiscal year. There was a change in administration. Commandant Hollings left in February, 2005. Carol Carey, an interim administrator was in place until the hire of Colleen Rundell, administrator on June 27, 2005. The business office had to manage an accounting software conversion as Hi-Tech replaced the previous accounting software.

<u>Payer Source</u>	<u>Census</u>	
	<u>2005</u>	<u>2004</u>
Private	10,111	9,311
Medicaid-Vermont	40,611	40,868
Medicaid-New York	3,198	2,962
Medicare	4,237	6,583
Domiciliary (Private)	557	732
Domiciliary (Agency)	1,604	1,824
Nursing Home-Agency	<u>177</u>	<u>6</u>
TOTAL	<u>60,495</u>	<u>62,286</u>

The Vermont Veterans' Home had approximately 220 employees in 2005 and 2004.

The Vermont Veterans' Home has a trust fund that is funded through donations and accounted for by restriction on donation. These funds are invested by the State of Vermont.

### The Financial Statements

The Vermont Veterans' Home's financial statements detail financial information using accounting methods similar to those used by private businesses.

The statement of revenues, expenses and changes in net assets presents the results of the Vermont Veterans' Home operations. The statement reports all revenues and expenses, and reconciles the beginning and end of year net asset balances.

The statement of net assets includes all of the Vermont Veterans' Home assets and liabilities as of June 30, 2005. The statement also presents the balance of assets in excess of liabilities, or net assets.

The statement of revenues, expenses and changes in fund net assets provides income by payer source and includes statistics on resident days, percent of occupancy and average cost per resident day.

The notes to the financial statements are an integral part of the financial statements and contain information necessary to obtain a complete view of the Vermont Veterans' Home financial position.

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## Appendix III

### Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

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Vermont Veterans' Home  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2005

Summary of Revenues and Expenses

	<u>2005</u>	<u>2004</u>
Operating Revenue		
Patient Revenue	\$ 14,009,563	\$ 13,482,848
State Appropriations (Net)	<u>49,013</u>	<u>964,171</u>
Total Revenues	<u>14,058,576</u>	<u>14,447,019</u>
Operating Expenses		
Administrative	4,381,693	4,286,102
Property and related	1,119,945	1,121,504
Plant operations	928,077	800,024
Dietary	1,089,193	1,111,435
Laundry and linens	261,430	241,971
Housekeeping	413,753	398,188
Nursing	5,162,213	5,073,163
Other services	<u>1,622,689</u>	<u>1,262,490</u>
Total Operating Expenses	<u>14,978,993</u>	<u>14,294,877</u>
OPERATING INCOME (LOSS)	(920,417)	152,142
OTHER INCOME (EXPENSE)	<u>1,606,800</u>	<u>88,240</u>
CHANGE IN NET ASSETS	<u>\$ 686,383</u>	<u>\$ 240,382</u>

Revenues

Operating revenue includes payments for resident care from private pay, Vermont and New York Medicaid, Medicare, Veterans Administration, and Agency payments totaling \$14,009,563. The Veterans Administration pays a per diem payment for each veteran to the home for the care of the resident. The Veteran population is approximately 94%. Agency payments come from our Domiciliary residents and are similar to Medicaid applied income.

Other revenues include a prior year settlement from Vermont Medicaid for \$1,485,306 relating to the settlement for fiscal year ending June 30, 2003. Other income also includes rental income from the Veterans Administration for the space utilized by the VA Clinic.

Other Revenues

	<u>2005</u>	<u>2004</u>
Prior year settlements	\$ 1,485,306	\$ 14,445
Contributions	28,697	30,514
Interest and dividends, net	1,106	190
Other income (loss), net	50,361	43,091
Transfer from endowment fund	<u>41,330</u>	<u>-</u>
TOTAL OTHER INCOME	<u>\$ 1,606,800</u>	<u>\$ 88,240</u>

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## Appendix III

### Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

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Vermont Veterans' Home  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2005

#### Expenses

VVH has basically two types of expenses, personal services and costs of operations. Personal services, which include wages, benefits and contracted services, represent approximately 80% of total expenses and costs of operations represent the remaining 20%.

Costs of operations - Costs per resident day were more than last year by \$18.11 per day. Administration had placed two separate freezes on admissions over the fiscal year as a result of an infectious virus. Occupancy is based on licensed total capacity of 208 beds, (184 skilled beds and 24 domiciliary beds). The Veterans Administration occupies eight private rooms for their clinic, reducing the number of available skilled beds to 176. Actual percentage of total bed capacity, based on available beds, is 83%. The majority of the increase in cost of operations was due an increase in payroll and payroll related expenses.

#### Condensed Net asset information

	<u>2005</u>	<u>2004</u>
NET ASSETS, Beginning of Year	\$ 5,457,498	\$ 5,217,116
ASSETS		
Current assets	3,838,107	2,960,202
Non-current assets	<u>3,796,759</u>	<u>4,004,916</u>
TOTAL ASSETS	<u>7,634,866</u>	<u>6,965,118</u>
LIABILITIES		
Current liabilities	1,486,260	1,503,075
Non-current liabilities	<u>4,725</u>	<u>4,545</u>
TOTAL LIABILITIES	<u>1,490,985</u>	<u>1,507,620</u>
NET ASSETS		
Invested in capital assets	3,791,581	3,999,918
Unrestricted	<u>2,352,300</u>	<u>1,457,580</u>
NET ASSETS, End of Year	<u>6,143,881</u>	<u>5,457,498</u>
CHANGE IN NET ASSETS	<u>\$ 686,383</u>	<u>\$ 240,382</u>

#### Net Assets

Investment in Capital Assets, net of related debt represents the net carrying value (original cost less accumulated depreciation). The Veterans' Home has no debt related to its capital assets.

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## Appendix III

# Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

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Vermont Veterans Home  
STATEMENTS OF NET ASSETS  
June 30,

	<u>2005</u>	<u>2004</u>
	<u>Primary Government Business-Type Activities</u>	<u>Primary Government Business-Type Activities</u>
ASSETS:		
Current Assets		
Cash	\$ 1,997,675	\$ 676,361
Accounts Receivable (net of allowance for uncollectible accounts)	1,743,092	2,175,091
Inventories	<u>97,340</u>	<u>108,750</u>
Total Current Assets	<u>3,838,107</u>	<u>2,960,202</u>
Noncurrent Assets		
Property & equipment, net	3,791,581	3,999,918
Other Assets	<u>5,178</u>	<u>4,998</u>
Total Noncurrent Assets	<u>3,796,759</u>	<u>4,004,916</u>
TOTAL ASSETS	<u>\$ 7,634,866</u>	<u>\$ 6,965,118</u>
LIABILITIES:		
Current Liabilities		
Accounts Payable	\$ 268,004	\$ 218,120
Accrued Salaries and benefits	1,057,131	1,009,423
Other accrued expenses	3,500	3,500
Deferred Revenue	157,058	266,690
Other liabilities	<u>567</u>	<u>5,342</u>
Total Current Liabilities	<u>1,486,260</u>	<u>1,503,075</u>
Noncurrent Liabilities		
Trustee lease payments	<u>4,725</u>	<u>4,545</u>
Total Noncurrent Liabilities	<u>4,725</u>	<u>4,545</u>
TOTAL LIABILITIES	<u>1,490,985</u>	<u>1,507,620</u>
NET ASSETS		
Invested in Capital Assets, net of related debt	3,791,581	3,999,918
Unrestricted	<u>2,352,300</u>	<u>1,457,580</u>
TOTAL NET ASSETS	<u>6,143,881</u>	<u>5,457,498</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,634,866</u>	<u>\$ 6,965,118</u>

See Accompanying Notes to Financial Statements.

# Appendix III

## Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

Vermont Veterans Home  
STATEMENTS OF ACTIVITIES  
For the Years Ended June 30,

FUNCTIONS	Expenses	Program Revenues		2005	2004
		Charges for Services	Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets Business-Type Activities	Net (Expense) Revenue and Changes in Net Assets Business-Type Activities
PRIMARY GOVERNMENT					
Business-Type Activities:					
Nursing Home	\$ 14,978,993	\$ 14,009,563	\$ 28,697	\$ (940,733)	\$ (781,515)
Total Business-Type Activities	14,978,993	14,009,563	28,697	(940,733)	(781,515)
TOTAL PRIMARY GOVERNMENT	\$ 14,978,993	\$ 14,009,563	\$ 28,697	(940,733)	(781,515)
GENERAL REVENUES					
Prior year settlements				1,485,306	14,445
Interest and dividends, net				1,106	190
Other income				50,361	43,091
TRANSFERS - ENDOWMENT FUNDS				41,330	-
TRANSFERS - CAPITAL APPROPRIATIONS				49,013	-
TRANSFERS - GENERAL FUND APPROPRIATIONS				-	964,171
TOTAL GENERAL REVENUES AND TRANSFERS				1,627,116	1,021,897
CHANGE IN NET ASSETS				686,383	240,382
TOTAL NET ASSETS - BEGINNING OF YEAR				5,457,498	5,217,116
TOTAL NET ASSETS - END OF YEAR				\$ 6,143,881	\$ 5,457,498

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## Appendix III

### Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

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	Vermont Veterans Home STATEMENTS OF NET ASSETS PROPRIETARY FUNDS For the Years Ended June 30,	
	<u>2005</u>	<u>2004</u>
	Business-Type Activities Enterprise Funds	Business-Type Activities Enterprise Funds
	Vermont Veterans Home	Vermont Veterans Home
ASSETS:		
Current Assets		
Cash	\$ 1,997,675	\$ 676,361
Accounts Receivable (net of allowance for uncollectible accounts)	1,743,092	2,175,091
Inventories	97,340	108,750
Total Current Assets	<u>3,838,107</u>	<u>2,960,202</u>
Noncurrent Assets		
Property & equipment, net	3,791,581	3,999,918
Other Assets	5,178	4,998
Total Noncurrent Assets	<u>3,796,759</u>	<u>4,004,916</u>
TOTAL ASSETS	<u>\$ 7,634,866</u>	<u>\$ 6,965,118</u>
LIABILITIES:		
Current Liabilities		
Accounts Payable	\$ 268,004	\$ 218,120
Accrued Salaries and benefits	1,057,131	1,009,423
Other accrued expenses	3,500	3,500
Deferred Revenue	157,058	266,690
Other liabilities	567	5,342
Total Current Liabilities	<u>1,486,260</u>	<u>1,503,075</u>
Noncurrent Liabilities		
Trustee lease payments	4,725	4,545
Total Noncurrent Liabilities	<u>4,725</u>	<u>4,545</u>
TOTAL LIABILITIES	<u>1,490,985</u>	<u>1,507,620</u>
NET ASSETS		
Invested in Capital Assets, net of related debt	3,791,581	3,999,918
Unrestricted	<u>2,352,300</u>	<u>1,457,580</u>
TOTAL NET ASSETS	<u>6,143,881</u>	<u>5,457,498</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,634,866</u>	<u>\$ 6,965,118</u>

See Accompanying Notes to Financial Statements.

# Appendix III

## Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

Vermont Veterans Home STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS PROPRIETARY FUNDS For the Years Ended June 30,		
	2005	2004
	Business-Type Activities Enterprise Funds	Business-Type Activities Enterprise Funds
	Vermont Veterans Home	Vermont Veterans Home
<b>OPERATING REVENUES</b>		
Private patients	\$ 1,983,258	\$ 1,825,161
Medicaid patients	8,463,130	8,256,541
Medicare patients	1,613,996	1,853,834
Agency patients	200,689	173,045
VA Stipend	1,286,168	101,828
Contractual allowances	462,322	1,272,439
Total Operating Revenues	14,009,563	13,482,848
State Appropriations - General Fund	-	964,171
State Appropriations - Buildings & Grounds	49,013	-
<b>TOTAL REVENUES</b>	<u>14,058,576</u>	<u>14,447,019</u>
<b>OPERATING EXPENSES</b>		
Administrative and general	4,381,693	4,286,102
Property and related	1,119,945	1,121,504
Plant operations and maintenance	928,077	800,024
Dietary	1,089,193	1,111,435
Laundry and linen	261,430	241,971
Housekeeping	413,753	398,188
Nursing	5,162,213	5,073,163
Other services	1,622,689	1,262,490
<b>TOTAL OPERATING EXPENSES</b>	<u>14,978,993</u>	<u>14,294,877</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(920,417)</u>	<u>152,142</u>
<b>OTHER INCOME (EXPENSE)</b>		
Prior year settlements	1,485,306	14,445
Contributions	28,697	30,514
Transfer from Endowment Funds	41,330	-
Interest and dividends, net	1,106	190
Other income (loss), net	50,361	43,091
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<u>1,606,800</u>	<u>88,240</u>
<b>CHANGE IN NET ASSETS</b>	686,383	240,382
<b>TOTAL NET ASSET - BEGINNING OF YEAR</b>	<u>5,457,498</u>	<u>5,217,116</u>
<b>TOTAL NET ASSETS - END OF YEAR</b>	<u>\$ 6,143,881</u>	<u>\$ 5,457,498</u>
<b>STATISTICS</b>		
Resident Days	60,495	62,286
Percentage of licensed bed capacity	79.68%	81.82%
Average cost per resident day	\$ 247.61	\$ 229.50

See Accompanying Notes to Financial Statements.

## Appendix III

# Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

Vermont Veterans Home  
STATEMENTS OF CASH FLOWS  
PROPRIETARY FUNDS  
For the Years Ended June 30,

	<u>2005</u>	<u>2004</u>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 15,937,444	\$ 13,208,601
State Appropriations - General Fund	969,037	964,171
State Appropriations - Buildings & Grounds	49,013	-
Transfer of Appropriation pursuant to Section 29 of Act 19	(969,037)	-
Cash paid to suppliers for goods and services	(6,697,097)	(6,399,836)
Cash paid to employees for services	(7,750,880)	(7,460,600)
Interest received	1,106	190
	<u>1,539,586</u>	<u>312,526</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOW FROM CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>		
Acquisition & Construction of Fixed Assets	(218,272)	(75,072)
Net Cash Provided (Used) by Capital & Related Financing Activities	(218,272)	(75,072)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	1,321,314	237,454
<b>CASH AND CASH EQUIVALENTS AT JULY 1</b>	<u>676,361</u>	<u>438,907</u>
<b>CASH AND CASH EQUIVALENTS AT JUNE 30</b>	<u>\$ 1,997,675</u>	<u>\$ 676,361</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH BY OPERATING ACTIVITIES</b>		
Net Operating Income (Loss)	\$ 686,383	\$ 240,382
<b>ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Depreciation and Amortization	426,609	483,712
(Increase) Decrease in Inventory	11,410	21,505
(Increase) Decrease in Accounts Receivable	431,999	(605,247)
(Increase) Decrease in Other Assets	(180)	(180)
Increase (Decrease) in Accounts Payable	49,884	(190,336)
Increase (Decrease) in Accrued Salaries and Benefits	47,708	116,288
Increase (Decrease) in Deferred Revenue	(109,632)	243,130
Increase (Decrease) in Other Liabilities	(4,595)	3,272
	<u>853,203</u>	<u>72,144</u>
<b>Total Adjustments</b>		
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 1,539,586</u>	<u>\$ 312,526</u>

See Accompanying Notes to Financial Statements.

# Appendix III

## Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

Vermont Veterans Home  
STATEMENTS OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30,

	Trust Funds				Agency Funds			2004
	Entertainment Fund	Chapel Fund	Rooms Fund	Members Assistance Fund	Other Funds	Member Guardian Accounts	Endowment Fund	Totals (Memorandum Only)
<b>ASSETS</b>								
Cash	\$ 15,217	\$ 4,419	\$ 2,038	\$ 2,483	\$ 53,025	\$ -	\$ -	\$ 79,339
Investments	-	-	-	-	-	-	1,053,027	1,053,027
Restricted Cash	-	-	-	-	-	42,422	-	42,422
Inventories	2,571	-	-	-	-	-	-	2,571
<b>TOTAL ASSETS</b>	<b>\$ 17,788</b>	<b>\$ 4,419</b>	<b>\$ 2,038</b>	<b>\$ 2,483</b>	<b>\$ 53,025</b>	<b>\$ 42,422</b>	<b>\$ 1,053,027</b>	<b>\$ 1,175,202</b>
<b>LIABILITIES</b>								
Due to the General Fund	\$ -	\$ -	\$ -	\$ -	\$ 10,000	\$ -	\$ -	\$ 10,000
Liabilities to members	-	-	-	-	-	42,422	-	42,422
<b>TOTAL LIABILITIES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,000</b>	<b>42,422</b>	<b>-</b>	<b>52,422</b>
<b>NET ASSETS Held in Trust</b>	<b>17,788</b>	<b>4,419</b>	<b>2,038</b>	<b>2,483</b>	<b>43,025</b>	<b>-</b>	<b>1,053,027</b>	<b>1,122,780</b>
<b>TOTAL NET ASSETS</b>	<b>17,788</b>	<b>4,419</b>	<b>2,038</b>	<b>2,483</b>	<b>43,025</b>	<b>-</b>	<b>1,053,027</b>	<b>1,122,780</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 17,788</b>	<b>\$ 4,419</b>	<b>\$ 2,038</b>	<b>\$ 2,483</b>	<b>\$ 53,025</b>	<b>\$ 42,422</b>	<b>\$ 1,053,027</b>	<b>\$ 1,175,202</b>

See Accompanying Notes to Financial Statements.

# Appendix III

## Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

Vermont Veterans Home  
STATEMENTS OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
For the Years Ended June 30,

	Trust Funds					2005	2004
	Entertainment Fund	Chapel Fund	Rooms Fund	Members Assistance Fund	Other Funds	Totals (Memorandum Only)	Totals (Memorandum Only)
<b>ADDITIONS</b>							
Revenues	\$ 23,491	\$ 199	\$ -	\$ 715	\$ 18,969	\$ 43,374	\$ 75,157
Operating transfers in	3,329	-	-	-	1,883	5,212	1,335
Transfer from Endowment Fund	-	-	-	-	41,330	41,330	25,000
<b>TOTAL ADDITIONS</b>	<b>26,820</b>	<b>199</b>	<b>-</b>	<b>715</b>	<b>62,182</b>	<b>89,916</b>	<b>101,492</b>
<b>DEDUCTIONS</b>							
Operating transfers out	907	-	-	1,604	2,701	5,212	1,335
Transfer to Nursing home	-	-	-	-	41,330	41,330	-
Program operating costs	22,725	619	-	2,951	21,070	47,365	79,726
<b>TOTAL DEDUCTIONS</b>	<b>23,632</b>	<b>619</b>	<b>-</b>	<b>4,555</b>	<b>65,101</b>	<b>93,907</b>	<b>81,061</b>
<b>NET ADDITIONS (DEDUCTIONS) TO NET ASSETS HELD IN TRUST</b>	<b>3,188</b>	<b>(420)</b>	<b>-</b>	<b>(3,840)</b>	<b>(2,919)</b>	<b>(3,991)</b>	<b>20,431</b>
<b>NET ASSETS HELD IN TRUST, BEGINNING</b>	<b>14,600</b>	<b>4,839</b>	<b>2,038</b>	<b>6,323</b>	<b>55,944</b>	<b>83,744</b>	<b>63,313</b>
<b>NET ASSETS HELD IN TRUST, ENDING</b>	<b>\$ 17,788</b>	<b>\$ 4,419</b>	<b>\$ 2,038</b>	<b>\$ 2,483</b>	<b>\$ 53,025</b>	<b>\$ 79,753</b>	<b>\$ 83,744</b>

See Accompanying Notes to Financial Statements.

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## Appendix III

# Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

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Vermont Veterans Home  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

Vermont Veterans Home is a component unit of the State of Vermont and is overseen by a Board of Trustees appointed by the Governor of Vermont. The financial statements do not present the financial position of the State of Vermont or any other component units of the State of Vermont. Its budget is subject to the review of the Vermont legislature, which appropriates funds to meet a material portion of the Home's operating expenses. The Home provides health care services primarily for Veterans, Spouses and Gold Star Parents.

Principles Determining Scope of Reporting Entity

The financial statements of the Home consist only of the funds and account groups of the Home. The Home has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the Home. Control or dependence is determined on the basis of budget adoption funding, and appointment of the respective Board of Trustees.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. The Home has no governmental activities.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories; governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

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## Appendix III

# Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

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Vermont Veterans Home  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Accounting

The accounts of the Home are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The funds are grouped, in the financial statements in this report, into two broad fund categories as follows:

Proprietary Funds

Enterprise Fund - The Enterprise Fund is used to account for Home operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public or on a continuing basis, be financed or received primarily through user charges.

Fiduciary Funds

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held by the Home in a trustee capacity or as an agent for individuals. These include expendable Trust and Agency Funds. Expendable Trust Funds are accounted for in essentially the same manner as governmental funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Home considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Liabilities and Fixed Assets

All proprietary funds Trust Funds are accounted for on a cost of services measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into retained earnings. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net total assets.

Depreciation of all exhaustible fixed assets used by the proprietary funds is charged as an expense against their operations. Accumulated Depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The ranges of estimated useful lives used are as follows:

Buildings and improvements	10 - 30
Equipment	4 - 20
Vehicles	4

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## Appendix III

# Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

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Vermont Veterans Home  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The proprietary fund Trust Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Inventories

Inventories are stated at cost which is determined by the first-in, first-out method.

Retirement Plan

The employees of Vermont Veterans Home are participants in the Vermont State Employees Retirement System. Total expense for the year ended June 30, 2005 and 2004 was \$723,962 and \$538,760, respectively.

Revenues

A significant amount of revenues are from Medicaid and Medicare reimbursement.

Total Columns on Combined Statements

Total columns on the combined statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contractual Allowances

Under the Medicaid and Medicare programs, Vermont Veterans Home is paid for the reasonable cost of services rendered as determined through the provisions of formulas used to establish prospective per diem rates. The differences between the established billing rates of Vermont Veterans Home and the amounts recoverable from the programs are shown as contractual allowances.

Contractual allowances also include amounts of agency (state-supported) patient revenues not provided by Veterans Administration per diem or applied income sources. The state contribution for these patients is included in state appropriations.

# Appendix III

## Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

Vermont Veterans Home  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 2      ACCOUNTS RECEIVABLE

Accounts receivable in the Enterprise Fund consist of the following at June 30,:

	<u>2005</u>	<u>2004</u>
Residents	\$ 98,709	\$ 332,190
Other Insurance	118,902	128,267
Veterans Administration	491,389	521,677
Medicaid	881,892	1,284,868
Medicare	419,515	305,167
V.A. Rent	5,845	2,922
Agency	<u>6,840</u>	<u>-</u>
	2,023,092	2,575,091
Less: Allowance for uncollectible Accounts	<u>(280,000)</u>	<u>(400,000)</u>
NET ACCOUNTS RECEIVABLE	<u>\$ 1,743,092</u>	<u>\$ 2,175,091</u>

NOTE 3      INVENTORY

Inventories consist of the following at June 30,:

	<u>2005</u>	<u>Enterprise</u>	<u>Agency</u>	<u>Trust and Total</u>
Nursing supplies	\$ 30,885	\$ -	\$ -	\$ 30,885
Linen and laundry	16,683	-	-	16,683
Janitorial supplies	4,787	-	-	4,787
Maintenance supplies	26,407	-	-	26,407
Dietary supplies	15,710	-	-	15,710
Member supplies	-	-	1,372	1,372
Office supplies	<u>2,868</u>	<u>-</u>	<u>-</u>	<u>2,868</u>
	<u>\$ 97,340</u>	<u>\$ 1,372</u>	<u>\$ -</u>	<u>\$ 98,712</u>

	<u>2004</u>	<u>Enterprise</u>	<u>Agency</u>	<u>Trust and Total</u>
Nursing supplies	\$ 46,351	\$ -	\$ -	\$ 46,351
Linen and laundry	4,117	-	-	4,117
Janitorial supplies	9,267	-	-	9,267
Maintenance supplies	29,894	-	-	29,894
Dietary supplies	17,432	-	-	17,432
Member supplies	-	-	4,405	4,405
Office supplies	<u>1,689</u>	<u>-</u>	<u>-</u>	<u>1,689</u>
	<u>\$ 108,750</u>	<u>\$ 4,405</u>	<u>\$ -</u>	<u>\$ 113,155</u>

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## Appendix III

# Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

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Vermont Veterans Home  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 4 MEMBER ASSISTANCE FUND

The Member Assistance Fund, a trust fund, is an account where the Home purchases goods for members at their request and various miscellaneous Home expenses. All members' purchases are reimbursed from members' accounts. This account is a petty cash type fund.

NOTE 5 MEMBERS GUARDIAN ACCOUNTS

The Members Guardian Accounts, an agency fund, was established by the Home for members who were not able to conduct their personal affairs. Members' funds are deposited in a checking account each month and expenses are paid each month on behalf of members. Savings accounts are opened for members who have excess funds. The activity in this fund was as follows as of June 30,:

	<u>2005</u>	<u>2004</u>
Members' income (includes VA pension, social security, other pensions and other income)	\$ 185,856	\$ 141,809
Interest earned on savings accounts	522	277
Members' expenses (includes expense paid on behalf of members, personal funds to be used by members and disbursements to members' estates)	<u>(193,362)</u>	<u>(201,165)</u>
Net Increase (Decrease)	(6,984)	(59,079)
Liability to Members - Beginning	<u>49,406</u>	<u>108,485</u>
Liability to Members - Ending	<u>\$ 42,422</u>	<u>\$ 49,406</u>

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment include the following as of June 30,:

	<u>2005</u>	<u>2004</u>
Construction in Progress	\$ 12,157	\$ 12,157
Land and land improvements	227,114	172,561
Building and improvements	11,981,048	11,932,272
Equipment	<u>1,997,674</u>	<u>1,882,728</u>
	14,217,993	13,999,718
Less: Accumulated depreciation	<u>(10,426,412)</u>	<u>(9,999,800)</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 3,791,581</u>	<u>\$ 3,999,918</u>

Depreciation expense of \$426,609 and \$483,712 has all been charged to the homes single business – type activity (Nursing Home) for the years ended June 30, 2005 and 2004, respectively.

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## Appendix III

### Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

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Vermont Veterans Home  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

NOTE 7 TRUSTEE LEASE

The Home leases a section of land to the Greater Bennington Chamber of Commerce in which the Chamber deposits money into an escrow account. At the expiration of the lease, the money deposited in the escrow account less any damages to the property and interest earned will be given back to the Chamber of Commerce. The asset account represents the deposits made plus interest earned. The liability represents deposits made by the Chamber. All interest earned is taken as revenue for the Home in the year realized.

NOTE 8 DEPOSITS

Business Type Activities – Nursing Home

At year-end, the carrying amount of the Nursing Home's deposits was \$1,997,675. Of the balance, \$50 was a petty cash account and \$1,997,625 was invested in cash and cash equivalents by the State of Vermont on the Vermont Veterans Home's behalf.

Fiduciary Funds

At year-end, the carrying amount of the Fiduciary Fund deposits was \$119,604 and the bank balance was \$150,970. Of the bank balance, \$73,787 was covered by federal depository insurance at the Merchant's Bank. The remaining \$77,183 was invested in cash and cash equivalents by the State of Vermont on the Vermont Veterans Home's behalf.

NOTE 9 DEFERRED REVENUE

The following details the Home's cash receipts that were unearned as of June 30,:

	<u>2005</u>	<u>2004</u>
Private prepayments in June for July	\$ 17,464	\$ 14,088
Overpayments from Medicaid to be recouped	<u>139,594</u>	<u>252,602</u>
Total Deferred Revenues	<u>\$ 157,058</u>	<u>\$ 266,690</u>

NOTE 10 DOMICILIARY UNIT

Included in the Enterprise fund for Vermont Veterans Home are revenues and expenses relating to the domiciliary unit. The following is a breakout of the revenues and the expenses as allocated on the Medicaid cost report as of June 30,:

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## Appendix III

### Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

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Vermont Veterans Home  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 10      DOMICILIARY UNIT (continued)

	<u>2005</u>	<u>2004</u>
REVENUES		
Private patients	\$ 49,695	\$ 64,350
Agency patients	143,830	154,905
Contractual allowance	(44,312)	(7,785)
General fund applied income reduction	<u>(39,402)</u>	<u>(84,959)</u>
 TOTAL REVENUES	 <u>109,811</u>	 <u>126,511</u>
EXPENSES		
Direct Costs	7,911	16,172
Property and related	42,810	46,984
Employee benefits and payroll taxes	3,086	6,018
Administrative and general	8,668	10,787
Plant operations and maintenance	69,730	59,963
Utilities	43,275	39,252
Housekeeping	68,579	64,404
Laundry	16,696	17,574
Dietary	61,782	70,214
Director of Nursing	5,851	6,774
Other resident care costs	<u>28,012</u>	<u>29,541</u>
 TOTAL EXPENSES	 <u>356,400</u>	 <u>367,683</u>
 PORTION OF GENERAL FUND APPROPRIATION APPLIED TO DOMICILIARY UNIT	 <u>\$ (246,589)</u>	 <u>\$ (241,172)</u>
 <u>Statistics</u>		
Resident Days	2,161	2,556
Percent of total licensed bed capacity	24.66%	29.09%
Average operating cost per resident day	\$ 164.92	\$ 143.85

NOTE 11      STATE APPROPRIATION –GENERAL FUND

The Vermont Veterans Home receives an appropriation from the State of Vermont General Fund to support costs incurred by the facility not provided for by reimbursement per diems or applied income sources. This appropriation totaled \$969,037 and \$964,171 for the years ended June 30, 2005 and 2004, respectively. In fiscal year 2005, the \$969,037 appropriation was transferred pursuant to Section 29 of Act 19.

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## Appendix III

### Vermont Veterans' Home Financial Statements for Year Ended June 30, 2005

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Vermont Veterans Home  
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NOTE 12 INVESTMENTS

The Vermont Veterans Home's endowment fund is held by the State of Vermont on the Veteran Home's behalf. It is maintained in four funds with the following activity:

	Other than Common Trust 64010	Common Trust 64010	Vuori Other than Common Trust 64011	Vuori Common Trust 64011	Total
Beginning Balance	\$ 23,016	\$ 452,627	\$ 74,393	\$ 448,021	\$ 998,057
Contributions	-	-	2,620	-	2,620
Transfers to donated funds	(41,330)	-	-	-	(41,330)
Transfers between funds	33,398	(45,888)	(62,500)	75,000	-
Gross Income	313	20,492	-	24,307	45,112
Fees and Expenses	-	-	-	(2,102)	(3,874)
Appreciation/Depreciation	-	24,409	-	28,033	52,442
Ending Balance	<u>\$ 15,387</u>	<u>\$ 449,868</u>	<u>\$ 14,513</u>	<u>\$ 573,259</u>	<u>\$ 1,053,027</u>