

Office of the  
Legislative Fiscal Analyst

## **FY 2003 Budget Recommendations**

Joint Appropriations Subcommittee for  
Transportation and Environmental Quality

**Utah National Guard**

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**1.0 Utah National Guard**

**Summary**

The Utah National Guard, a state-administered military force, fulfills a dual state-federal mission. The Utah Army and Air National Guard serve both state and federal governments by providing organized, trained, and equipped air and ground units to perform state missions, as directed by the Governor, while supporting the Army mobilization programs of the federal government. The primary purpose of the Utah National Guard is to act as a backup for the active military forces, as a state force to quell civil disturbances, and to provide public assistance during natural disasters.

The Analyst FY 2003 Base budget recommendation includes the Revised Estimate for FY 2002 as approved by the Executive Appropriations Committee during the first week of the 2002 General Session and the following items

- ▶ Adjustment for FY 2002 one-time programs;
- ▶ Payroll cost of an extra day in FY 2003;
- ▶ Transfers of Market Comparability Adjustments;
- ▶ Net changes for Internal Service Fund rates; and
- ▶ Annualized costs of across the board reductions.

	<b>Analyst FY 2003 Base</b>	<b>Analyst FY 2003 Changes</b>	<b>Analyst FY 2003 Total</b>
<b>Financing</b>			
General Fund	4,154,500	(4,000)	4,150,500
Federal Funds	15,595,400		15,595,400
Dedicated Credits Revenue	1,835,600		1,835,600
Transfers - Intergovernmental	165,500		165,500
Beginning Nonlapsing	41,500		41,500
Closing Nonlapsing	(31,500)		(31,500)
<b>Total</b>	<u>\$21,761,000</u>	<u>(\$4,000)</u>	<u>\$21,757,000</u>
<b>Programs</b>			
Administration	526,200	(700)	525,500
Armory Maintenance	17,564,000	(3,300)	17,560,700
Veterans' Affairs	186,000		186,000
Veterans' Cemetery	242,000		242,000
Veterans Nursing Home	3,242,800		3,242,800
<b>Total</b>	<u>\$21,761,000</u>	<u>(\$4,000)</u>	<u>\$21,757,000</u>
<b>FTE/Other</b>			
Total FTE	139		139

## **2.0 Budget Highlights: Utah National Guard**

### **2.1 Orem Facility Maintenance**

This year the National Guard facility on the west campus of Utah Valley State College in Orem was completed. An agreement was made between the College and the National Guard that allows joint use of the facilities. The College estimates that the facility will reduce their classroom needs for at least one thousand students per year. It is understood that the College furnished the land, the federal government funded the majority of the construction, and the National Guard was to approach the Legislature for operations and maintenance of the facility. Considerable discussion took place in the Legislature last year as to which entity should be responsible to budget for operations and maintenance of the facility. Last year the Legislature appropriated \$90,000 to Utah Valley State College to fund the increased use by the College. To date the Guard has not received those funds for this function. This amount is needed on an ongoing basis to continue that operation of the facility. For clarity in accounting, the Analyst has included the \$90,000 in the base budget recommendation for the National Guard in the FY 2003 budget.

### **2.2 Reorganization of Veteran Programs**

Two years as House Bill 140, Reorganization of Veteran Related Programs, was enacted. The legislation transfers the responsibility for three veteran related entities on a staggered schedule over three years. The Division of Veterans' Affairs in FY 2001, the Veterans Cemetery in FY 2002, and the Veterans' Nursing Home in FY 2003. This year the Analyst recommendations will complete those three transfers.

**3.1 Programs: Utah National Guard - Administration**

**Recommendation**

The Analyst recommends \$525,500 for the budget of the National Guard Administration for FY 2003. This appropriation is to fund salaries and benefits of 8 FTE positions at a cost of \$514,200.

Travel is recommended at \$3,800 to cover the State portion of out-of-state travel for the administration program. Current expense is recommended at \$7,500.

Any other expenditures necessary in this program are covered with federal funds for federal programs and do not show as part of the appropriation in the State budget.

	2001	2002	2003	Est/Analyst
	Actual	Estimated	Analyst	Difference
<b>Financing</b>				
General Fund	518,100	526,100	525,500	(600)
General Fund, One-time		(1,700)		1,700
Transfers - Intergovernmental	7,200	2,000		(2,000)
<b>Total</b>	<u>\$525,300</u>	<u>\$526,400</u>	<u>\$525,500</u>	<u>(\$900)</u>
<b>Expenditures</b>				
Personal Services	517,700	524,100	514,200	(9,900)
In-State Travel		200		(200)
Out of State Travel	5,400	800	3,800	3,000
Current Expense	2,200	1,300	7,500	6,200
<b>Total</b>	<u>\$525,300</u>	<u>\$526,400</u>	<u>\$525,500</u>	<u>(\$900)</u>
<b>FTE/Other</b>				
Total FTE	8	8	8	

**Purpose**

Although the primary mission of the Guard is federally oriented, the Constitution provides for control of these units at the State level. Even so, in the overall program, 98 percent of all Guard expenditures are from federal funds, and the remaining two percent is from the State.

The Adjutant General is the Military Chief of Staff to the Governor, and is responsible for directing the affairs of the Army and Air National Guard in conformance with State statutes and federal regulations. Because of the statewide location of Army Guard units possessing special equipment, they are available for state missions for civil defense, natural disaster, civil disturbance, and large-scale emergency situations at the call of the Governor.

The doctors, nurses, and trained medical technicians of the Utah Army and Air National Guard provide invaluable emergency backup capabilities for natural and accidental disasters of large proportions.

The Administration Division of the National Guard is the coordinating arm between state and federal programs. The state funded portion of the administrative staff has eight full-time equivalents. Those employees are located at the administration building in Draper.

The National Guard with their involvement in the War Against Terrorism and the Salt Lake Winter Olympics finds their troops at an almost one hundred percent call up.

### 3.2 Programs: Armory Maintenance

**Recommendation** The Legislative Analyst's Armory Maintenance budget recommendation is \$17,560,700, funded from four sources - the General Fund at \$3,254,800, Federal Funds at \$14,118,000, Transfers at \$165,500 and Dedicated Credits at \$22,400. The Dedicated Credits are realized when armory facilities are rented out for functions of schools, local citizen groups, etc.

Many of the armory maintenance personnel are part-time employees. There are more than 161 individuals at various points throughout the state. Their combined hours represent 123 FTEs. Personal services for maintenance personnel are funded at FY 2002 salary and benefit levels at a total cost of \$7,560,100.

Travel is recommended at \$115,600, with the major portion for out of state travel. Current expense is recommended at \$7,891,000, with the major expenditures going to fund communication services, building and grounds, operations and maintenance, utilities, and risk management insurance. The data processing budget is recommended at \$106,000. A capital outlay recommendation of \$1,891,000 will be used for equipment replacement in armories throughout the state.

	2001	2002	2003	Est/Analyst
	Actual	Estimated	Analyst	Difference
<b>Financing</b>				
General Fund	3,244,800	3,185,800	3,254,800	69,000
General Fund, One-time		72,200		(72,200)
Federal Funds	14,267,800	11,675,300	14,118,000	2,442,700
Dedicated Credits Revenue	22,400	40,000	22,400	(17,600)
Transfers - Intergovernmental	56,300	38,500	165,500	127,000
Beginning Nonlapsing	16,800			
<b>Total</b>	<u>\$17,608,100</u>	<u>\$15,011,800</u>	<u>\$17,560,700</u>	<u>\$2,548,900</u>
<b>Expenditures</b>				
Personal Services	8,192,000	7,321,500	7,560,100	238,600
In-State Travel	18,000	19,700	17,700	(2,000)
Out of State Travel	113,700	95,600	97,900	2,300
Current Expense	7,591,700	5,940,900	7,887,700	1,946,800
DP Current Expense	101,400	49,400	106,000	56,600
Capital Outlay	1,591,300	1,584,700	1,891,300	306,600
<b>Total</b>	<u>\$17,608,100</u>	<u>\$15,011,800</u>	<u>\$17,560,700</u>	<u>\$2,548,900</u>
<b>FTE/Other</b>				
Total FTE	123	123	123	

**Purpose** The National Guard facilities within the State are quite extensive. Army National Guard facilities are located in 28 communities throughout Utah. These include armories, maintenance shops, a warehouse, and 245 buildings located at Camp Williams. The Utah Air National Guard installation at the Salt Lake International Airport includes 54 buildings located on 82 acres of land.

The Administration Building in Draper has given the National Guard a first class facility at a reasonable cost to the taxpayers of Utah. Most of the maintenance and remodeling at this facility is completed with federal funding with much of the actual work completed by various units within the ranks of the Guard itself.

The Legislature has provided matching funds for new armory facilities in such places as Spanish Fork, St. George, Blanding, and Orem. These facilities upgrade pre-World War II armories as well as add new modern facilities to house expanded functions of the Utah National Guard.

## **Issues**

### **Orem Facility Maintenance**

This year the National Guard facility on the west campus of Utah Valley State College in Orem was completed. An agreement was made between the College and the National Guard that allows joint use of the facilities. The College estimates that the facility will reduce their classroom needs for at least one thousand students per year. It is understood that the College furnished the land, the federal government funded the majority of the construction, and the National Guard was to approach the Legislature for operations and maintenance of the facility. Considerable discussion took place in the Legislature last year as to which entity should be responsible to budget for operations and maintenance of the facility. Last year the Legislature appropriated \$90,000 to Utah Valley State College to fund the increased use by the College. To date the Guard has not received those funds for this function. This amount is needed on an ongoing basis to continue that operation of the facility. For clarity in accounting, the Analyst has included the \$90,000 in the base budget recommendation for the National Guard in the FY 2003 budget.

### 3.3 Programs: Veterans' Affairs

#### Veterans' Affairs

Two years ago House Bill 140, Reorganization of Veteran Related Programs, was enacted. The legislation transfers the responsibility for three veteran related entities on a staggered schedule over three years. The Division of Veterans' Affairs in FY 2001, the Veterans Cemetery in FY 2002, and the Veterans' Nursing Home in FY 2003. This recommendation includes the Veterans' Affairs Program. The Analyst is recommending a FY 2003 budget for the Veterans' Affairs Program of \$186,000.

	2001	2002	2003	Est/Analyst
	Actual	Estimated	Analyst	Difference
<b>Financing</b>				
General Fund	169,200	169,200	165,700	(3,500)
General Fund, One-time		(4,000)		4,000
Dedicated Credits Revenue	10,300	5,000	10,300	5,300
Transfers - Intergovernmental	800			
Beginning Nonlapsing	24,600	36,900	12,100	(24,800)
Closing Nonlapsing	(22,300)	(36,900)	(2,100)	34,800
<b>Total</b>	<b>\$182,600</b>	<b>\$170,200</b>	<b>\$186,000</b>	<b>\$15,800</b>
<b>Expenditures</b>				
Personal Services	68,300	56,600	103,200	46,600
In-State Travel	2,100	2,500	2,100	(400)
Out of State Travel	3,500	3,800	3,500	(300)
Current Expense	21,000	17,400	4,500	(12,900)
DP Current Expense	3,500	1,900	3,500	1,600
Capital Outlay	15,000			
Other Charges/Pass Thru	69,200	88,000	69,200	(18,800)
<b>Total</b>	<b>\$182,600</b>	<b>\$170,200</b>	<b>\$186,000</b>	<b>\$15,800</b>
<b>FTE/Other</b>				
Total FTE	2	2	2	

#### Mission

This program helps veterans with counseling on benefits and claims, reviews veterans hiring preference programs. And coordinates with local and federal veterans programs.

**3.4 Programs: Veterans' Cemetery**

**Recommendation** The Analyst is recommending an appropriation of \$242,000 for the Veterans' Cemetery for FY 2003.

	2001	2002	2003	Est/Analyst
	Actual	Estimated	Analyst	Difference
<b>Financing</b>				
General Fund		208,900	204,500	(4,400)
General Fund, One-time		177,000		(177,000)
Dedicated Credits Revenue		33,000	37,500	4,500
<b>Total</b>	<u>\$0</u>	<u>\$418,900</u>	<u>\$242,000</u>	<u>(\$176,900)</u>
<b>Expenditures</b>				
Personal Services		198,300	187,500	(10,800)
In-State Travel		200		(200)
Current Expense		43,400	54,500	11,100
Capital Outlay		177,000		(177,000)
<b>Total</b>	<u>\$0</u>	<u>\$418,900</u>	<u>\$242,000</u>	<u>(\$176,900)</u>
<b>FTE/Other</b>				
Total FTE		5	5	

**Purpose** The Veterans' Cemetery was established to allow veterans and their spouses a local burial option in a military cemetery.

### 3.5 Programs: Veterans' Nursing Home

**Recommendation**

During the 2000 General Session House Bill 140, Reorganization of Veteran Related Programs, was enacted. The legislation transfers the responsibility for three veteran related entities on a staggered schedule over three years. The Division of Veterans' Affairs in FY 2001, the Veterans Cemetery in FY 2002, and the Veterans' Nursing Home in FY 2003. This year the Analyst recommendations will complete those three transfers. The Analyst is recommending that the FY 2001 appropriation to the Department of Health be transferred to the National Guard as a base budget of \$3,242,800 for FY 2003 for the Veterans' Nursing Home. The sponsor of the legislation that transferred the nursing home to the National Guard requested a letter opinion from the Legislative Auditor General to determine how much additional funding would be necessary to complete the transfer. That letter opinion is attached (see page 13). If funding is to be provided as the letter opinion expresses an additional \$166,680 will be needed for operation of the nursing home. Ongoing expenditures of \$92,000 for personnel and \$40,600 for data processing equipment purchases and facility maintenance are recommended in the opinion letter as well.

Because of the revenue constraints for FY 2003 the Analyst is not recommending this increase at this time. If funding becomes available consideration could be given to cover part of this increase along with increased rates to residents.

	2001 Actual	2002 Estimated	2003 Analyst	Est/Analyst Difference
<b>Financing</b>				
Federal Funds		1,477,400	1,477,400	
Dedicated Credits Revenue		1,765,400	1,765,400	
Beginning Nonlapsing		30,700	29,400	(1,300)
Closing Nonlapsing		(29,400)	(29,400)	
<b>Total</b>	<b>\$0</b>	<b>\$3,244,100</b>	<b>\$3,242,800</b>	<b>(\$1,300)</b>
<b>Expenditures</b>				
Personal Services		90,400	84,100	(6,300)
In-State Travel		200	200	
Current Expense		3,118,800	3,123,800	5,000
DP Current Expense		4,700	4,700	
Other Charges/Pass Thru		30,000	30,000	
<b>Total</b>	<b>\$0</b>	<b>\$3,244,100</b>	<b>\$3,242,800</b>	<b>(\$1,300)</b>
<b>FTE/Other</b>				
Total FTE		1	1	

**Purpose**

The Utah State Veterans' Nursing Home is an 81-bed, long-term care facility that provides both skilled and intermediate levels of care to Utah's veterans and eligible spouses who are residents of Utah.

In 1996, the Legislature approved a one-time appropriation of \$500,000 for initial operating costs of the nursing home. In addition, the Legislature appropriated \$1.8 million as the state's share of the construction costs for the Veteran's Nursing Home. These funds qualified for federal matching funds from the United States Department of Veteran Affairs in the amount of \$3.6 million. Additional funds were collected from various sources, including contributions from veterans' organizations that also qualified for federal matching funds, making the total available for the project of approximately \$6.5 million.

Construction began in late 1996 and was completed in May of 1998. On May 27, 1988, the nursing home began admitting patients and quickly reached a census of 80 patients.

The Veterans' Nursing Home has been under the direction of the Department of Health since its opening. The Department has contracted with Traditions Health Care for the day-to-day operations of the home.

Beginning July 1, 2002, the nursing home will be under the governance of the National Guard.



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**Audit Subcommittee of the Legislative Management Committee**  
President L. Alma (Al) Mansell, Co-Chair • Speaker Martin R. Stephens, Co-Chair  
Senator Mike Dmitrich • Representative Brad King

July 16, 2001

Speaker Martin R. Stephens  
Utah House of Representatives  
318 State Capitol Building  
Salt Lake City, UT 84114

**Subject: Utah Veterans' Nursing Home Transfer (Report # 2001-06)**

Speaker Stephens:

In accordance with your audit request, our office has conducted a review of the administrative overhead costs, personnel, capital, and other long-term needs at the Utah Veterans' Nursing Home (UVNH). Our work was done in anticipation of the July 1, 2002 administrative transfer of the UVNH from the Department of Health (DOH) to the Utah National Guard (UNG).

The transfer is part of a legislative effort to better serve Utah's veterans by consolidating all state veterans' affairs under one department—the National Guard. In 2000, the Legislature passed HB 140 which elevated the existing Office of Veterans' Affairs to division status under the UNG. The legislation then authorized the transfer of the Veterans' Cemetery and the Utah Veterans' Nursing Home under the new Division of Veterans' Affairs in fiscal year 2002 and fiscal year 2003, respectively.

The UVNH transfer is the last and most complicated leg of the consolidation due primarily because state ownership and operation of a nursing home is unique. The state operates a nursing home because the state wishes to offer veterans the benefit of reduced-cost care. Cost reductions are possible through federal funding support that is not available without state involvement. As a result of participating in the federally-supported program, the state must follow federal guidelines and participate in a complicated funding mechanism that includes federal per diem support payments, resident fees, and state support either with

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a share of the federal per diem dedicated to the state for administrative reimbursement or with direct state general fund participation. The federal per diem is a significant benefit because most UVNH residents would have to pay the full cost of being in any other private nursing homes. (See Appendix: Funding Structure of the Utah Veterans' Nursing Home for more detailed information on funding.)

Generally, we found that about \$160,600 in additional funding will be needed for the initial transition year—\$132,600 for the UNG and \$28,000 for the Attorney General's Office (AG's)—to oversee on-going nursing home operations. Subsequent year funding should approximate this amount but will need to be determined as maintenance and equipment replacement needs are clarified. Initial and on-going funds will be necessary to replace the untracked cost of using DOH staff in the operation of the UVNH since its inception. Also, funding will be needed to provide for information technology equipment needs, and for persistent home maintenance needs that have not been adequately addressed. We also believe that the challenges involved in the transfer and in addressing funding problems suggest that the Legislature should proceed with caution in discussing additional veterans' nursing homes.

The specific funding needs for the initial year of the transition are shown in Figure 1. The figure also shows on-going funding which could be quantified.

Figure 1. Initial and On-going Funding Will be Needed for UVNH Oversight.

Funding Recipients	Transfer Year Amounts	On-going Amounts
Utah National Guard		
Personnel	\$92,000	\$92,000
Information Technology Equipment	20,000	See Footnote 1
Capital Facility and Maintenance	20,600	See Footnote 2
Subtotals	\$132,600	\$92,000
Attorney General's Office (Personnel)	28,000	28,000
Totals	\$160,600	\$120,000

1. On-going funding for information technology equipment will be based on the replacement cycle determined by the UNG. However, it is reasonable to conclude that an outlay similar to the \$20,000 may be needed in another three to five years.
2. The \$20,600 for facility needs is a total of the Priority 1 and Priority 2 maintenance estimates from Figure 8 (page 19) of this report. While on-going capital facility and maintenance funding will be needed, estimates differ.

The funding for personnel, equipment and capital facility needs will have to come from either on-going state budgetary support or an increase in the state administrative fee, which likely would mean an increase in resident fees.

## **Veterans' Nursing Home Transfer Highlights Existing Financial Problems**

The Utah Veterans' Nursing Home (UVNH)—located on the federal Veterans' Administration Medical Center campus—opened in May 1998 after an initial state construction investment of \$1.8 million. It was the state's intention that the home would be self-sustaining on federal VA per diem payments and resident fees. Actual operating costs and capital facility needs have clearly exceeded the combined federal and resident revenues and have resulted in stopgap methods that cannot be maintained for prolonged periods without some change in the funding structure. Although there are some significant issues surrounding the administrative transfer of the home from the DOH to the UNG, including some needed one-time and on-going state funding, we generally concur with the conclusion that the home is now in a stable position.

### **Veterans' Home Presented to Legislature as Self-sustaining**

The Legislature was led to believe, by some veterans' organizations, that the UVNH would be self-sustaining through a partial per diem from the federal VA and fees paid by residents. The involved parties believed that there would be no need for Medicaid funding or other on-going state support. Currently, the budget for the UVNH has only two line items:

- Federal funds (per diem sent from the VA), and
- Dedicated credits (funds received from UVNH residents for their share of the daily rate).

Although no on-going state funding was budgeted to the home, the Legislature did create a \$500,000 trust account—the Utah Veterans' Nursing Home Expendable Trust Fund (trust fund)—to cover unforeseen start-up costs. This was in addition to the state's original construction investment of \$1.8 million. The state's intention was to use the trust fund and the authorized state share of the federal per diem payment to pay for all

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anticipated state costs. Although, when the DOH became involved, it did agree to use existing administrative resources for various support functions needed to run the UVNH. In effect, the state set up the home on a one-half VA, one-half resident funding model even though the federal VA State Home Program is based on a different model. The federal model is to have one-third of the daily rate met by VA per diem, one-third by resident payments, and one-third by state funds. Most homes in other states have some level of state support although exact data is not kept by the federal VA.

Unfortunate events led to significant problems for Utah's model. First, there was confusion between the UVNH and the VA as to when per diem payments were to initially start. This situation is currently being litigated. Second, a loss of federal certification by the initial contractor made the home ineligible to receive the necessary per diem payments; this loss caused a greater strain on finances. Third, the \$10 administrative fee the DOH was authorized to collect under the contract was waived for the current contractor so it could get on its feet after the DOH terminated the contract with the initial contractor.

But, in the absence of the administrative fee proceeds, the DOH met with continued start-up expenses and spent down the \$500,000 in the trust fund to its current unencumbered balance of approximately \$55,000 (some payments are yet outstanding on an energy loan acquired during construction). Then, in October 2000 the DOH and the UVNH board reinstated the administrative fee (at a lesser rate of \$3 per resident-day), although the fee does not cover all of the associated costs. It is estimated that nearly \$400,000 was waived for the contractor prior to the reinstatement. While this waiver has helped keep residents' costs down, it has also forced the DOH to use state funds to run the home.

#### **Funding Increase Will Be Necessary For UNG to Oversee Veterans' Home**

The UVNH transfer will not be smooth without some additional funding. The UNG will be accepting a facility that lacks contingency funding because a large portion of the administrative fee is still waived for the contractor. In addition, while the DOH has been able to meet some administrative expenses with departmental resources, the UNG does not have this same ability. Clearly, more funding will be necessary. The only viable funding sources are the state and the nursing home residents, but funding through a resident increase would further burden veterans.

**SCHEDULE OF FEES**

Fee Title	Regulatory Fee (Y/N)	FY 2002 Current Rate	FY 2003 Proposed Rate	Percent Increase	FY 2003 Number of Units	Total Revenue	Purpose for Rate or Unit Increase
(all fees are non-refundable)							
<b>Global license fees for admitted insurers</b>							
Certificate of Authority-initial license application	Y	500.00	1,000.00	100.0%	30	30,000	Current fee last changed in 1980; department costs to provide service have increased during that time
Certificate of Authority-renewal	Y	50.00	300.00	500.0%	1,450	435,000	Switch to annual global license renewal fee resulted in increase. Eliminated retaliatory fee. Current fee last changed in 1980. Increase was averaged for all admitted insurers doing business in Utah.
Filing Annual Statement	Y	250.00					Included in FY03 global license fee
Form B Filing	Y	25.00					Included in FY03 global license fee
Form D Filing	Y	100.00					Included in FY03 global license fee
Stock Solicitation Permit, not SEC	Y	1,000.00					Included in FY03 global license fee
Stock Solicitation Permit, Private/SEC	Y	250.00					Included in FY03 global license fee
Ind.License to Solicit w/Stock Permit	Y	50.00					Included in FY03 global license fee
Ann.Statement & Renewal of Fraternal	Y	50.00					Included in FY03 global license fee
Certificate of Authority-reinstatement	Y	500.00	1,000.00	100.0%			Current fee last changed in 1980; department costs to provide service have increased during that time

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**Funding Needs Can Be Addressed by Appropriations and/or Increased Fees.** Additional UVNH funding sources are limited to either the Legislature appropriating necessary funding each year or urging the UNG to reinstate the full \$10 administrative fee. Should the Legislature decide not to increase state support to the UVNH, the option of increasing resident fees shifts the burden to the resident even further beyond that intended by the federal VA funding model. Residents would bear the \$7 increase because the contractor would likely seek an off-setting \$7 increase for its daily rate. Currently, UVNH residents pay 54 percent of the daily rate, and the VA per diem pays 46 percent. If resident rates were raised \$7 per resident-day (to allow an increase in the administrative fee from \$3 to \$10), the residents would then be paying 57 percent of the daily rate.

Such an increase could address current transition cost needs and aid in establishing ongoing reserves in the trust fund. For example, if the UNG and UVNH board advised the full reinstatement of the administrative fee effective September 1, 2001, an estimated \$225,000 should accrue by July 1, 2002—the start of fiscal year 2003. This increase would provide sufficient funds for anticipated personnel, equipment and capital facility needs. In contrast, leaving the fee at \$3 per resident-day would only raise \$67,500 over the same period.

Even with raised daily rates, however, veterans in Utah would receive reasonably priced care. We based our conclusion on comparisons with in-state nursing homes and other state veterans' homes, although we did not conduct detailed, in-depth analyses of nursing home rates. Currently, UVNH rates are lower relative to other states and only slightly above rates in Utah's private nursing homes. Increasing the fee could better position the UVNH (and the National Guard) for immediate and future needs.

**Costs at Utah Veterans' Nursing Home Lower than Other States.** According to our analysis of other states' veterans' homes, UVNH's daily total costs are lower. Most other state-operated veteran facilities receive the same federal per diem but have a level of state support and Medicaid eligibility. This additional support of funding allows for a lower resident fee. The UVNH is ineligible to use Medicaid funds due to a state moratorium prohibiting new Medicaid beds. The relative per-day costs of veterans' nursing home care among states are shown in Figure 2.

**Figure 2. Compared to Utah's Veterans' Nursing Home, Other State Veterans' Homes Have Higher Daily Costs.** Figures are based on the federal fiscal year 2000 (October 1999 through September 2000).

Veterans' Nursing Homes	Cost Per Day
Nationwide (111 homes)	\$ 148.65
Western States (13 homes)	137.47
Utah Veterans' Nursing Home	103.79

UVNH Costs are Comparable to Utah's Private Nursing Homes. While Utah veterans' cost per day is considerably lower than the national average, comparable costs exist within Utah's private sector. Although UVNH costs are slightly higher, veteran residents are paying less because 48 percent of their daily cost is borne by the federal per diem. When comparing these numbers, however, it is important to note that a veterans' home primarily houses men, and private homes primarily house women. We have been told that men, by size and nature, are more costly to care for. Figure 3 shows that the UVNH's costs are similar to those of privately-owned homes in Utah.

**Figure 3. The Calendar Year 2000 Profile of Utah's Private Nursing Homes Shows that UVNH Daily Rates are Only Slightly Above the Average of Other Homes.** Data was taken from the Department of Health's "Facility Cost Profile" provided by Medicaid auditors.

Veterans' Nursing Homes	Cost Per Day
Private Nursing Homes in Utah (79)	\$ 110.39 <sup>1</sup>
Utah Veterans' Nursing Home	112.33 <sup>2</sup>

1. For the thirty homes located in closer proximity to the UVNH (Salt Lake valley), the average rises to about \$116.00.
2. This \$112.33 rate is higher than the \$103.79 shown in Figure 2 because the federal per diem was increased at the end of federal fiscal year 2000 (October 2000). Also, the UVNH board approved a rate increase for the contractor in October 2000.

### Quality of Care Is a Primary Concern

Funding and quality of care are closely related in nursing homes. At the inception of the home in May of 1998, the UVNH faced funding and quality of care problems. The home's first contractor had difficulties ranging from resident care to staff turnover. Related to these problems, the contractor did not receive VA per diem benefits in a timely manner, forcing

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the contractor to absorb these costs. Regardless of which circumstances occurred first, as a result of federal inspection deficiencies, the home lost the certification necessary to receive federal funding. The first contractor was unable to correct the financial and management problems and DOH consequently terminated the contract.

The current contracted health care provider has improved the overall situation at the UVNH and has an acceptable financial and quality assurance record. The nursing home has regained its federal accreditation. At the last annual inspection, the home was found to be in compliance, with only a few easily resolved violations. In contrast, under the previous contractor, the home was found in non-compliance and inspectors cited numerous major violations. The current contractor has been able to handle many of the unanticipated month-to-month expenses, such as the excessive costs of maintaining the required minimum number of certified nurses. Quality of care, according to the current contractor, will be maintained regardless of the transition. The contractor does believe that one of the most important aspects of its relationship with the state is the effectiveness of the State Officer—the on-site state employee that acts as liaison between the contractor and the governing state agency. The State Officer needs to have the skill necessary to review the contractor's financial statements and perform day-to-day quality assurance duties.

Resolving contract issues can stabilize the future of the home and do much to ensure that appropriate care levels are maintained. The current contractor has a proven record but could choose not to renew over financial concerns. A number of issues need to be clarified contractually prior to the transition. If some issues are not resolved, the relationship with the current provider could cease at the end of the three-year contract term in August 2002. UNG may still need to prepare a request for proposal (RFP) with the assistance of DOH and the Division of Purchasing to address these issues.

### **Support Staff Costs Have Not Been Recognized**

The Utah National Guard (UNG) will need approximately \$92,000 in its first year as administrators of Utah Veterans' Nursing Home (UVNH) operations to cover its personnel administrative costs, plus an additional \$28,000 for the Attorney General's Office (AG's) for UVNH legal services. The \$92,000 includes all personnel needs that cannot be absorbed by existing UNG staff and primarily involves the cost of the federally-required State Officer. Under DOH leadership, the state's administrative costs were fragmented

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among a variety of DOH workers. Under the UNG, without the benefit of a number of available staff, the administration will have to be more centralized with the State Officer supported by UNG staff and some contract staff. The UNG will face additional challenges in running the UVNH. We believe that, aside from the personnel funding issues, in order to have a smooth transition, several administrative changes should be made prior to the transition.

### **DOH Has Supported Veterans' Home with Staff**

Although not tracked, there have always been administrative oversight costs funded through DOH's budget. Because oversight comes from several personnel under the general "administrative" umbrella at DOH, costs have not been quantified for this type of review. DOH staff work contributions have now been estimated through the audit, which show administrative personnel support to the Veterans' Home at approximately \$81,000 per fiscal year. These personnel costs are shown in Figure 4.

**Figure 4. The Department of Health Contributes Approximately \$81,000 in Support Personnel Costs to the UVNH Annually for Administrative Oversight.** Only a portion of these state funds is recovered through the administrative fee held back from the federal per diem.

Administrative Support Position	Compensation Per Hour	Est. Hours to UVNH Per Pay Period	Total Per Pay Period	Annual Total
Legal Counsel	\$ 52.29	2.8	\$ 146.41	\$ 3,806.71
Financial Oversight	47.33	6.0	283.98	7,383.48
Accounting Officer	28.08	5.3	148.82	3,869.42
Information Technology (LAN)	34.58	4.0	138.32	3,596.32
Information Technology Clerical				1,054.00
Quality Assurance Review	30.38	2.5	75.95	1,974.70
Capital Facilities Liaison	35.12	4.0	140.48	3,652.48
State Officer (Partial)				34,362.40
			Subtotal	\$ 59,699.51
Legal Counsel (Extraordinary) <sup>2</sup>	\$ 52.29	16.0	\$ 836.64	\$ 21,752.64
			Total	\$ 81,452.15

1. The majority of the State Officer's compensation package (\$55,000 of the \$89,462 total) is funded by the \$3.00 administrative fee held back from the federal per diem given to the contract provider. However, the above \$34,362 is DOH funds.
2. "Extraordinary" legal counsel refers to DOH's involvement in the lawsuits pending against the initial contract health provider for the UVNH and the federal Department of Veterans Affairs to recoup funds.

Although DOH time keeping does not show direct support to the UVNH, we verified that as many as ten support staff perform administrative duties for the UVNH each pay period. Figure 4 lists the support coming from legal, financial, nursing and capital facility personnel. The figure also includes a portion of the State Officer's salary being paid with DOH funds, with the remaining portion of this salary being paid with proceeds from the federal per diem administrative fee.

Because of the size of the DOH, employees were able to give administrative time to the UVNH which was never really considered as a direct infusion of "state money" into the UVNH. However, the UNG does not have the same ability to absorb all overhead costs and duties.

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### **National Guard Can Absorb Some Personnel Costs but Additional Funding Is Needed**

Many of the duties performed by the DOH personnel can be absorbed with existing UNG personnel; however, some additional personnel will be needed because of UNG's lack of available staff and health-care infrastructure. This lack is due in large part to the unique federal regulations governing the UNG mission which states that certain federally-paid personnel cannot be used in any role beyond the UNG's primary mission. Based on current salaries of the respective DOH staff, the UNG will need at least \$92,000 to fund the federally-required State Officer and a Quality Assurance Nurse. The UNG should not need additional personnel funding for executing the financial duties, information technology, or facility maintenance of the UVNH, although we recognize this situation could change in the future. Figure 5 summarizes the transitional expectations and recommendations for necessary UVNH support personnel.

**Figure 5. Some UVNH Personnel Needs Can Be Absorbed at the UNG But Some State Funding Will Be Needed.** Based on the workload schedule shown in Figure 4 of this report, the UNG will need additional funding for two out of six areas audited for personnel requirements in order to maintain the same services as the DOH.

Position	As It Currently Exists	Upon Transfer	Personnel Funding Notes
State Officer	DOH Employee	UNG Employee	Additional Funding of \$90,000 Needed
Quality Assurance	DOH Nurse	Contract with DOH Nurse	Additional Funding of \$2,000 Needed
Financial	DOH Employees	UNG Employees: State Officer and State Budget and Account Officer	No Additional Funding Anticipated
Legal Services	DOH Legal Staff and AG's Office Legal Staff	AG's Office Legal Staff	No Additional UNG Funding Anticipated Additional Funding of \$28,000 for AG's Office Needed
Information Technology	OIT at the DOH	Current UNG LAN Administrator	No Additional Funding Anticipated
Capital Facilities Management	Contractor and DOH Maintenance Staff	Contractor, UNG Facilities Staff, or New Maintenance Contractor	No Additional Funding Anticipated

1. As mentioned in the initial summary on pages 2-3 of this report, funding for these items can most likely be met with the administrative fee currently set at \$3.

**UNG Faces Unique Personnel Challenges in the Transition.** The UVNH transition forces the UNG to face challenges that were not an issue to the DOH. Although the UNG can have its funding challenges met, there are other non-funding related challenges. For example, the UNG is prohibited from using certain resources towards anything that does not further its mission. Since running a nursing home does not further its mission, UNG is not allowed to use certain staff for this purpose. The UNG has "federal" and "state" workers. The federal workers may not be involved in running the UVNH. In addition to personnel challenges, the UNG is limited by its budget. Where the DOH has a large budget and staff to absorb many of the functions necessary to running a nursing home, the UNG does not.

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**UNG Will Need to Hire Federally-Required State Officer.** The Utah National Guard will be required to hire a new State Officer upon receipt of the UVNH because the current State Officer will stay with the DOH. The current State Officer's total compensation is \$90,000. This compensation level appears to be adequate given that the average salary, before benefits and profit-sharing, for an administrator in a private home was \$53,000 in 1999.

We believe the UNG will need to maintain a comparable salary level to be able to recruit an experienced State Officer. Since the UNG has no experience in running nursing homes, the State Officer will be key to the home being run effectively. The UNG has received funding to hire a new State Officer prior to the transfer to shadow the current officer and learn the system.

This shared transition period should give the new State Officer the opportunity to expand and take on different responsibilities. In our opinion, a major change in the State Officer's job description could be the addition of nursing home specific financial responsibilities. The State Officer position could be required to review the contractor's financial statements and question levels of profit and expenses. Another addition to the job description could be the ability to review quality assurance documents that ascertain the quality of health care in the home.

Assigning administrative support to the State Officer may help to alleviate non-nursing home specific duties from the State Officer's workload. Aside from the above-listed tasks, both the current and previous State Officer have had to perform secretarial duties. For example, both have had to do all of the mailing and typing up of meeting minutes.

**UNG Should Consider Quality Assurance Reviews Through Contract Nurse.** The UNG should consider contracting with DOH to continue the nursing service review DOH now provides. According to the DOH, these services currently cost \$2,000 per year and provide

- A level of expertise and industry-specific advice on running the home effectively.
- An inexpensive way to build nursing home experience into the program.
- A safeguard to official federal inspections that offers remedies for infractions before risking resident harm, loss of state licensing or loss of federal certification.

**UVNH Financial Support Duties Can be Split Between UNG Positions.** There is mutual agreement that the UNG's existing State Budget & Accounting Officer, along with

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the new State Officer can share the UVNH's financial duties. It does not appear that any additional funding will be necessary for these duties provided the UNG can recruit a State Officer with financial skills. The DOH has spent approximately \$11,500 annually from its budget for financial duties such as reviewing and auditing the contractor's financial statements, processing payments, reconciling trust funds, and reviewing billings which can be performed by the State Officer and existing UNG staff.

#### **UNG Could Use Legal Assistance From the Utah Attorney General's Office.**

Because of the UNG's unique mission and inability to use the Judge Advocate General (JAG) personnel (military legal staff), the Attorney General's Office (AG's) has asserted that it could take over the on-going legal needs of the UVNH for an additional \$28,000 added to its budget. In addition, assigning all of the legal needs of the UVNH to the AG, instead of sharing between the AG and the DOH, could help to eliminate any possible duplication of work.

The AG's office estimates the on-going legal needs of the UVNH will require one-quarter time attorney, one-sixth time paralegal, and one-sixth time secretary. Conversely to the AG's request for \$28,000, the DOH claims the on-going legal needs they provide to the UVNH are roughly \$3,800 per year (excluding paralegal and secretarial costs). The on-going legal needs of the UVNH include, but are not limited to, dealing with resident complaints and contract, ombudsman, and miscellaneous issues as they arise.

As with the on-going legal needs, the AG's office is also the best option for the UVNH's extraordinary legal needs (such as lawsuits). Historically, the DOH has spent \$22,000 per year for the personnel required to handle UVNH's extraordinary legal needs. Since the UNG is prohibited from allowing its legal counsel to provide services for the UVNH, the AG's office will most likely be the only option available to the UNG. Currently, the AG's office absorbs the cost of these lawsuits by using personnel in its existing budget. It appears that no additional appropriation, beyond the \$28,000 already discussed, is necessary for the AG's office to continue providing legal services for prior lawsuits.

**Additional Information Technology Employee May Be Needed.** The UNG states that the addition of the UVNH will propel its information technology (IT) workload into requiring an additional employee, which UNG had already planned on seeking funding for prior to involvement with the UVNH. According to the UNG it has been requesting an additional full-time employee prior to receiving the UVNH and the Veterans' Cemetery. UNG claims it is difficult for its state LAN Administrator to take sick or annual leave because of workload. However, we do not believe the IT work related solely to the UVNH

and the Veterans' Cemetery warrants an additional FTE. Currently, the Office of Information Technology at DOH is contracted to provide four hours per pay period of a LAN Administrator's time, along with some clerical and training time, to the UVNH for \$3,500 per year. Four hours per pay period does not warrant recommending a full-time employee for the UNG. However, the UNG asserts that its current LAN Administrator is already pushed to capacity. At the time of the audit release, the audit team had not been able to verify this claim with work load documents.

**UNG May Be Able to Absorb Facility Oversight Duties.** In addition to the IT staff, the UNG has existing staff that may be able to absorb some of the facility maintenance needs. Currently, the UVNH contractor does the day-to-day maintenance of the facility while DOH staff coordinate the more involved maintenance tasks and provide oversight. DOH's facilities manager in the Office of Employee Support estimates that he spends about 5 percent of his time on matters regarding the UVNH. Our previous calculations in Figure 4 show this to be an annual personnel cost of \$3,700. Based on current work load estimates, the UNG may be able to absorb DOH's share of the facility's needs with its existing state maintenance manager. However, significant capital facility maintenance and repair concerns do exist which could alter this conclusion. These concerns are discussed in the report's final section entitled "Capital Funding is Needed."

**Specific Administrative Duties Should Be Performed Prior to Transition.** A final salient personnel issue is that of adequate planning for the transition. Several administrative duties must be performed prior to the transfer. Figure 6 shows a time-line that identifies these UVNH needs to be addressed prior to the transition date of July 1, 2002.

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**Figure 6. UVNH Stakeholders Have Agreed on a Time Line for a Smooth Administrative Transition.** There are several duties the UNG, DOH, and AG's Office need to complete before oversight of the UVNH is transferred to the UNG on July 1, 2002.

Tasks to be Completed Before Transition	Suggested Completion or Implementation Dates
1. UNG's recruitment procedure and hire of the new State Officer	1. August 2001 for hire in March 2002
2. UNG budget considerations	2. September 2001
3. UNG assumes task of submitting names to Governor of new appointment / re-appointment recommendations for the UVNH board	3. April 2002
4. Coordination of the computer equipment licenses and ownership, configuration of the system, and general computer information exchange	4. April 2002
5. Trust fund transfers from the DOH to the UNG, including VA per diem account and donations account	5. May 2002
6. UNG notification to VA of new trust account numbers for receipt of federal per diem funds	6. May 2002
7. AG's Office completing assignment of provider contract documents from DOH to UNG	7. May 2002
8. Letter to the federal VA informing of the transition, as required by federal code	8. Last quarter before transition
9. Determination of capital facility maintenance procedures to ensure a long life for the home	9. Last quarter before transition
10. Memorandum of Agreement between DOH and UNG for Quality Assurance nursing services	10. Last quarter before transition

1. Some tasks could be performed earlier. Tasks should be performed no later than suggested dates, however.

## Capital Funding is Needed

Due largely to the DOH needing to waive the administrative fee charged out of the federal per diem, administrators over the UVNH are fiscally unprepared to meet some immediate and long-term equipment and facility needs. This puts the state in the position

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of either providing further direct funding or supporting an increase in the daily rate charged to residents to cover a reinstatement of the full administrative fee. Estimates show that information technology (IT) needs within the coming year could cost the state \$20,000 and immediate facility needs another \$20,600. Additional estimates of long-term facility needs over a ten-year period range from \$338,000 to \$750,000, depending on the future direction taken on facility utilities.

### **Information Technology Equipment Reaching End of Life Cycle**

The UVNH's IT equipment was purchased when the home opened in 1998 and, by state standards, is at the end of its three-year life cycle. Replacement of the equipment (one file server and ten computer workstations) would require one-time funding of \$20,000 for replacement. This equipment has been provided by the state and is used by the contracted care provider.

DOH has agreed to leave all relevant IT equipment in the home and has begun training UNG staff in the use of the remotely operated network management system. This transition support should allow the UNG staff to maintain the UVNH's IT equipment with few actual site visits. DOH staff say that maintenance and end-user IT help are minimal as the contract provider only runs a few programs beyond its proprietary medical case management database. Figure 7 shows the estimated cost of replacement submitted by the UNG following the joint UNG and DOH Information Technology personnel site-visit.

**Figure 7. Information Technology Specialists at the DOH and UNG Estimate Replacement Costs and Licensing at \$20,000 for Fiscal Year 2003.** While equipment replacement dollars are one-time, the minimal licensing fees for the network application program (ZenWorks<sup>1</sup>) are on-going.

Information Technology Equipment and Licensing	Units Needed	Unit Cost	Replacement Costs
CPU workstations	10	1,100	\$11,000
File server	1	8,000	8,000
Printers	n/a	1,000	0
		Equipment Subtotal	\$19,000
ZenWorks licensing per node (workstation)	11	29.50	\$ 325
ZenWorks annual maintenance (\$1.88/quarter)	11	7.52	83
		Licensing Subtotal	\$ 408
		<b>TOTAL COST</b>	<b>\$19,408</b>

1. "ZenWorks" is a Novell network product which allows LAN Administrators to manage and maintain workstations from a remote location. It is ideal for a situation such as the UVNH where the LAN Administrator is not on-site at the home, but can render most IT aid by remote. ZenWorks is on the state Master Licensing Agreement but charges by the "node" (workstation).

As stated earlier, little funding for such equipment is available in the unencumbered balance of the trust fund (around \$55,000). If the trust fund is not available, funding for IT equipment replacement would likely need to come from either a one-time state appropriation of \$20,000 or be delayed until funds can be amassed through charging the administrative fee. The contract provider has not stated an immediate need for IT equipment replacement which may give the UNG time to raise needed funds through the administrative fee. But, according to IT experts involved in this project, a key reason for replacing the computer equipment at the end of life-cycle is to stay current on warranties. Equipment out of warranty can be costly to repair and replace.

### **UNG Will Need Funding to Deal With Some Facility Concerns**

In the earlier discussion on personnel, we concluded that the UNG could likely oversee the home with existing facility management staff, but may be challenged by the work load. While the DOH facility liaison reported only spending a few hours on the home per pay period, more time will likely need to be spent by the UNG in the transition and beyond. This is chiefly due to two significant areas:

- Concern over a few chronic facility problems largely connected with the construction of the building, and funding for associated repairs, and
- A philosophical question over who should oversee the on-going maintenance of the building.

In addition to facility workload, the UNG could also be challenged to find funding for on-going capital facility needs. As a general rule, the Building Board does not give funding eligibility to auxiliary enterprises, which are defined as "enterprises that are intended to be self-supporting through the charging of fees for goods and services." Because the UVNH is seen as self-supporting, it does not qualify for capital improvement funds allocated by the Building Board. Hence, some source of on-going funding for capital will be needed for the UVNH.

**We Concur With a Portion of DFCM's Facilities Needs Evaluation.** According to a recent architectural engineering evaluation performed at the request of the Division of Facilities and Construction Management (DFCM), approximately \$20,600 is needed to meet immediate short-term capital repair needs for the transition year or before. An additional \$725,000 is suggested for deferred maintenance and building modifications over the next ten years. It should be noted that the immediate capital needs stem from problems related to the initial construction of the home. Currently, DFCM is attempting to have the \$20,600 in repairs paid by the builder. However, because it is unclear whether DFCM will be able to obtain the funding from the builder, we include the amount as needed funding.

Almost half of the \$725,000 amount in on-going facility needs comes from building modifications involving isolating the home's utility connections (electric power, natural gas, chilled water and steam heat) from the adjacent federal Veterans Administration Medical Center (VAMC). We believe that the modifications to isolate the UVNH are not necessary unless the VAMC decides to terminate the utility agreement. But, termination is unlikely since the VAMC communicated no such intent to the audit team. Therefore, modifications

for isolation seem premature unless the state plans to discuss UVNH isolation from the VAMC. Figure 8 shows the cost of maintenance for the next ten years, with the isolation costs shown in a separate line item.

**Figure 8. A Recent Consulting Firm Assessment of the UVNH, Performed for DFCM, Shows \$358,000 in Repairs and Improvements Needed Over Ten Years.** This assessment includes the \$20,600 "Priority 1" and "Priority 2" needs for the transition year. An additional \$388,000 was recommended if the UVNH were to be isolated from the VAMC.

Priority Status	Maintenance/Repair Item Totals	Priority Period Totals
<b>Priority 1 (Immediate Need)</b>		
Domestic Hot Water System Corrections	\$ 12,527	\$ 12,527
<b>Priority 2 (First Year)</b>		
Heating, Air & Ventilation (HVAC) Repairs	7,147	
Drain System Testing	894	8,041
<b>Priority 3 (Two to Five Years)</b>		
Install Drinking Fountain Wing Walls	596	
Seismic Brace Acoustical Ceiling System	37,620	
Domestic Hot Water System Upgrade	37,928	
Site Drainage Upgrades	23,065	99,209
<b>Priority 4 (Six to Ten Years)</b>		
Standard Carpet Replacement	34,807	
Plumbing Fixture Component Replacements	198,513	
Parking Area Maintenance	4,449	237,769
<b>Sub Totals</b>	<b>\$357,546</b>	<b>\$357,546</b>
Building Modifications to Isolate UVNH from VAMC	\$387,983	\$387,983
<b>Total</b>		<b>\$745,529</b>

1. The Priority 1 and Priority 2 items totaling \$20,568 will need to be funded by appropriation in fiscal year 2003 unless DFCM is able to obtain the money through the builder's warranty. The remaining priorities can be addressed in future fiscal years.

As with IT equipment needs, we are concerned with the lack of sufficient funds, particularly in the first year of the transition, which can only be augmented by either a state appropriation or increased resident fees.

**The UNG May Need to Re-evaluate On-Going Maintenance Provision.** As part of its oversight role, facility managers at the UNG may need to re-evaluate how maintenance is handled at the UVNH. Currently, the UVNH contractor is required to provide the daily maintenance of the home with special projects being coordinated through maintenance staff at the DOH. The contractor could continue to provide on-going maintenance, or other options could be pursued such as contracting maintenance with the VAMC. For the most part, however, many issues regarding the UVNH facility had yet to be resolved at the time of the audit release, such as a pending facility maintenance audit report by DFCM. The audit staff can continue to follow-up on pending capital facility issues if the Legislature desires.

## Recommendations

1. We recommend the Legislature, for fiscal year 2003, consider creating an equitable mix of state funding support and resident fees that are sufficient to meet the needs of the Utah Veterans' Nursing Home. In determining the sources of funding, the Legislature should bear in mind the immediate funding needs for fiscal year 2003 as follows:
  - \$132,600 needed for the Utah National Guard to meet personnel, information technology equipment and capital facility needs for the transfer of the Utah Veterans' Nursing Home, and
  - \$28,000 needed for the Attorney General's Office for on-going legal needs at the Utah Veterans' Nursing Home. (Shown in Figure 1 on page 2.)
2. We recommend the Legislature assure the remaining balance of the Utah Veterans' Nursing Home Expendable Trust Fund be transferred from the Department of Health to the Utah National Guard for availability in fiscal year 2003, as required in *Utah Code* 71-11-8.

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3. We recommend that the Legislature proceed with caution on recommending any future veterans' nursing homes until, as discussed in this report, such time that the current home has successfully been transferred from the Department of Health to the Utah National Guard and the financial stability can be adequately evaluated.

We hope this report identifies key issues which need to be addressed in order for a smooth transition of the Utah Veterans' Nursing Home to occur. Response letters from the Department of Health and the Utah National Guard are attached. We look forward to further assisting the Legislature with any follow-up questions. If you have further questions concerning this report, please call Legislative Audit Supervisor, Darin R. Underwood at 538-1033, extension 121.

Sincerely,



Wayne L. Welsh, CPA  
Auditor General

WLW:DRU/lm

## Appendix A

### Funding Structure of the Utah Veterans' Nursing Home

The Legislature contributed \$1.8 million toward the \$5.2 million construction of the Utah Veterans' Nursing Home (UVNH). The federal Department of Veterans' Affairs (VA) paid the remainder, but gave ownership of the home to Utah for on-going operations. However, the VA requires Utah (and the other 46 states that operate veterans' nursing homes) to abide by federal stipulations to receive the per diem which partially funds the daily costs. The stipulations consist mainly of (1) assuring a State Officer oversees the home and is on-site 40 hours per week, and (2) passing an annual comprehensive federal facility review.

In Utah, the Legislature has not committed direct state funding for the UVNH beyond the state share of the construction costs and the \$500,000 put in the Utah Veterans' Nursing Home Expendable Trust Fund (trust fund) for initial start-up costs. As the report points out, most of the trust fund has been depleted. However, the trust fund still acts as the conduit for all UVNH funds. (Incidentally, the Division of Finance will seek to reclassify the trust fund to a special revenue fund through legislation in 2002.)

Fees paid by UVNH residents, the federal per diem and other private donations flow through the trust fund. (Private donations accrue to a trust fund sub account.) Subsequently, expenses are paid out of the trust fund, including the daily rate owed to the contractor and \$3 per resident-day to meet administrative costs. However, the \$3 fee does not cover all administrative costs. In fact, portions of the State Officer's compensation are paid out of general DOH funds. Hence, we conclude in the report to have the Legislature either authorize on-going state funding, or encourage the UNG to restore the full \$10 administrative fee. Figure 9 in this Appendix summarizes the flow of funding through the trust fund.

**Figure 9. The Utah Veterans' Nursing Home Expendable Trust Fund <sup>1</sup> Acts as the Revenue and Expenditure Conduit for the UVNH.** The start-up appropriation of \$500,000 is nearly depleted, but all other funds continue to flow through the fund. This figure shows revenue sources into the fund and some on-going expenditures. (Data is current as of July 2001.)

Revenues	Amount
Per Diem From Federal VA	\$51.38 per resident-day
Resident Fees	\$60.95 per resident-day
Medicaid <sup>2</sup>	\$ 0.00
Medicare <sup>3</sup> (Variable)	
(Private Donations Are Held in Trust Fund Sub Account)	
<b>Total</b>	<b><u>\$112.33</u></b>
Expenditures	Amount
Daily Rate Paid to Contract Provider <sup>4</sup>	\$109.33 per resident-day
State Administrative Fee	\$3.00 per resident-day
<b>Total</b>	<b><u>\$112.33</u></b>

1. Because the Governmental Accounting Standards Board (GASB) states that trust funds should not be used to operate governmental functions, the Division of Finance is seeking to have the trust fund reclassified as a special revenue fund, in the 2002 legislative session, as the fund will continue to act as a pass-through account for the UVNH.
2. Medicaid funds are not available to the Utah Veterans' Nursing Home because the home was built after the Governor imposed a moratorium on the creation of any new Medicaid financed nursing home beds.
3. The UVNH has been eligible for Medicare since September 2000 for post hospital residents. Medicare pays the full cost of care for 20 days and a portion thereafter, up to 100 days per year. The VA per diem is withheld during the 20 days. Only six residents have used this Medicare funding since September 2000.
4. This rate is in accordance with the current UVNH provider contract which states that the contractor is responsible for the purchase, repair or replacement of equipment items with a cost of \$2,500 or less, per item or unit. Remaining capital needs are the state's responsibility.



# State of Utah

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July 10, 2001

Wayne L. Welsh, Auditor General  
Office of the Legislative Auditor General  
PO Box 140151  
130 State Capitol  
Salt Lake City, UT 84114

Dear Wayne:

RE: Department of Health Response to Utah Veterans' Nursing Home  
Transfer (Report #2001-06)

Thank you for the opportunity to review the report titled "Utah Veterans' Nursing  
Home Transfer (Report No. 2001-06)."

The report is well done in my view, and reaches reasonable and appropriate  
conclusions about the issues that need to be addressed as the State prepares for the July 1,  
2002 administrative transfer of the UVNH to the Utah National Guard.

Please extend to your staff that were involved with the audit my personal  
appreciation for the professionalism demonstrated during the preparation of the report.

The report correctly identifies that necessary long-term capital improvements  
cannot be met at the UVNH without additional funds. The report leaves open the issue of  
whether state funds or additional resident contributions should be the source of those  
funds. The Department's plans to address these long-term needs at the UVNH involved  
recovery of per diem payments denied by the federal Veterans' administration, litigation  
against the first contractor for losses the state incurred as a result of that contractor's  
failure to maintain certification for per diem payments, and close work with the current  
contractor to minimize costs.

The Department is proud of the quality of the members of the Advisory  
Committee that were appointed to assist with the policy and financial oversight of the  
UVNH. In an effort to keep costs low, the Committee made the decision that the UVNH  
should be privately operated, believing that resident rates would be 15 % to 20% lower.

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Your report validates that costs at the UVNH are similar to other privately operated nursing homes in the state. Keeping the costs down to the residents was important in order to comply with the Legislature's wishes that the UVNH be operated without a state subsidy yet be available to all Veterans, not just those with higher incomes.

The Advisory Committee and the Department of Health believe that residents have been asked to contribute as much as is realistic, and that any significant increase in the daily rate will create a financial hardship for some residents, and make it more difficult for low-income residents to enter the UVNH.

If you have any questions about this response, please call me at 538-6111.

Sincerely,

A handwritten signature in black ink, appearing to read "Rod Betit", with a horizontal line extending from the end of the signature.

Rod L. Betit  
Executive Director



# State of Utah

## UTAH NATIONAL GUARD

Michael O. Leavitt  
Governor  
Major General Brian L. Tarbet  
Adjutant General

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P.O. Box 1776  
Draper, Utah 84020-1776  
(801) 523-4402 DSN 766-4402

July 12, 2001

Office of the Legislative Auditor General  
Attn: Darrin Underwood  
130 State Capitol  
Salt Lake City, UT 84114-0151

Subject: Utah National Guard's Response to Legislative Auditor's Report # 2001-06  
Utah Veteran's Nursing Home Transfer.

1. Thank you for the opportunity to respond to your draft report # 2001-06 dated 28 June and 9 July 2001. There are two areas of concern which need to be addressed:

a. The Utah National Guard can not absorb, as indicated on page 10 of the 9 July report, personnel costs without additional funding. Our state work force is sized to support the daily needs of the National Guard. Although the increased workload for finance accounting and administrative duties is small, we can not match the level of support currently provided by the DOH. The 9 July report verifies that DOH has as many as ten support staff perform administrative duties for the UVNH each pay period (page 9 – 9 July report). We do not have that large a state administrative staff. The net increase in workload may require the total National Guard staffing to be relooked at in the information technology, financial, and administrative areas. In addition, routine maintenance, less than \$2,500 is the responsibility of the current contractor and again the Utah National Guard can not provide employs for the maintenance of the facility.

b. The total financial picture for the nursing home is based on two parties – the federal VA and the patient. The idea that the home can be run without state funding is flawed. This will be a long-term issue and should be addressed by the Legislature now. With the current patient rate of 54% and the VA paying 46%, there may be a time when the federal VA would withdraw their support if state funding were not provided. The national model as pointed out in the report is to have dedicated state funding available. The current reliance on a small withholding of VA funds for administrative and maintenance services is not working. There is no reserve for long term capital needs, current maintenance, or other, as yet to be defined, needs. The existing “trust fund” is

nearly depleted and the home would be hard pressed to meet an emergency if one should occur. If the state really wishes to offer veterans the benefit of reduced-cost care then there must be continuing state appropriations for home.

2. My point of contact for the Veterans' Nursing home is BG Stan Gordon, who may be reached at 523-4268.

*for Stanley Gordon BG, VSNV*

Brian L. Tarbet  
Major General  
The Adjutant General

## 4.0 Additional Information: Utah National Guard

### 4.1 Funding History

	1999	2000	2001	2002	2003
<b>Financing</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Estimated</b>	<b>Analyst</b>
General Fund	3,198,600	3,475,300	3,932,100	4,090,000	4,150,500
General Fund, One-time	100,000			243,500	
Federal Funds	16,025,200	12,164,200	14,267,800	13,152,700	15,595,400
Dedicated Credits Revenue	27,100	306,300	32,700	1,843,400	1,835,600
Transfers - Intergovernmental	108,500	251,100	64,300	40,500	165,500
Beginning Nonlapsing	4,100	98,900	41,400	67,600	41,500
Closing Nonlapsing	(98,900)	(16,800)	(22,300)	(66,300)	(31,500)
<b>Total</b>	<b>\$19,364,600</b>	<b>\$16,279,000</b>	<b>\$18,316,000</b>	<b>\$19,371,400</b>	<b>\$21,757,000</b>
<b>Programs</b>					
Administration	484,600	500,500	525,300	526,400	525,500
Armory Maintenance	18,880,000	15,778,500	17,608,100	15,011,800	17,560,700
Veterans' Affairs			182,600	170,200	186,000
Veterans' Cemetery				418,900	242,000
Veterans Nursing Home				3,244,100	3,242,800
<b>Total</b>	<b>\$19,364,600</b>	<b>\$16,279,000</b>	<b>\$18,316,000</b>	<b>\$19,371,400</b>	<b>\$21,757,000</b>
<b>Expenditures</b>					
Personal Services	6,815,800	7,568,600	8,778,000	8,190,900	8,449,100
In-State Travel	38,800	19,600	20,100	22,800	20,000
Out of State Travel	92,100	160,200	122,600	100,200	105,200
Current Expense	5,915,700	5,938,600	7,614,900	9,121,800	11,078,000
DP Current Expense	78,700	50,900	104,900	56,000	114,200
Capital Outlay	6,423,500	2,541,100	1,606,300	1,761,700	1,891,300
Other Charges/Pass Thru			69,200	118,000	99,200
<b>Total</b>	<b>\$19,364,600</b>	<b>\$16,279,000</b>	<b>\$18,316,000</b>	<b>\$19,371,400</b>	<b>\$21,757,000</b>
<b>FTE/Other</b>					
Total FTE	129	131	133	139	139

**4.2 Federal Funds**

<b>Program</b>		<b>FY 2001 Analyst</b>	<b>FY 2002 Analyst</b>	<b>FY 2003 Analyst</b>
<b>Director's Office</b>				
Armory Maintenance	<b>Federal</b>	\$14,267,800	\$14,103,600	\$14,118,000
	<b>State</b>	\$1,013,300	\$1,026,600	\$1,027,600
Veterans' Nursing Home Administration	<b>Federal</b>	\$201,900	\$88,700	\$94,300
	<b>State*</b>	\$0	\$0	\$0
Veterans' Nursing Home Contract Operations	<b>Federal</b>	\$686,600	\$1,430,400	\$1,383,100
	<b>State</b>	\$7,800	\$1,802,000	\$1,765,400
<b>Utah National Guard Total</b>	<b>Federal</b>	\$15,156,300	\$15,622,200	\$15,595,400
<b>Utah National Guard Total</b>	<b>State</b>	\$1,021,100	\$2,828,600	\$2,793,000

\* The required match is paid by nursing home residents.