

## California Department of Veterans Affairs

It Has Initiated Plans to Serve Veterans Better and More Cost-Efficiently, but Further Improvements Are Needed

Report 2012-119

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May 9, 2013

2012-119

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

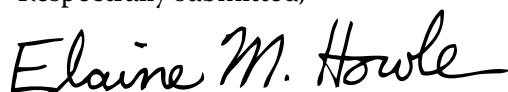
Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee, the California State Auditor presents this audit report concerning the California Department of Veterans Affairs' (CalVet) management of the California veterans homes, including its efforts to improve operational efficiencies and revenue generation, and its planning efforts to leverage resources to serve more veterans.

This report concludes that although CalVet generated revenues to offset less than half of the cost to operate its veterans homes between fiscal years 2009-10 and 2011-12, it did not begin developing standardized policies and procedures to monitor and increase the amount of revenue generated at all of the homes until 2012. In addition, state laws and CalVet policies limit its ability to recover the full cost of providing care to veterans (members) while they are living at a home and from using funds collected from members' estates after they pass away to offset the costs of their care. We further identified that statutory licensing requirements and budget constraints have limited the number of beds available in the homes, resulting in unused space. Although CalVet has taken some steps to better utilize this unused space through lease agreements and a public-private partnership agreement with another entity to serve more veterans than it currently serves, it needs to formalize its process for increasing utilization of unused space and monitoring the success of its partnership agreements. Moreover, our legal counsel identified several state and federal legal restrictions that may limit CalVet's ability to utilize the unused space at the homes.

Further, we noted that limited resources have impeded CalVet's outreach efforts to connect veterans with their benefits and services. In addition, we identified that CalVet needs to enhance its oversight and guidance for referring veterans needing long-term care to other facilities when it cannot admit them to one of its homes. We also identified weaknesses in CalVet's oversight and guidance to ensure that purchases made at the homes follow state purchasing requirements; CalVet took steps during the audit to address these weaknesses. Finally, CalVet has not conducted a formal analysis of its current purchasing model for the homes to ensure that it is the most efficient and cost-effective way to purchase goods and services.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor

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## Summary

### Results in Brief

The mission of the California Department of Veterans Affairs (CalVet) is to deliver the innovative services veterans and their families need to be successful, productive Californians in the most efficient and cost-effective manner through aggressively collaborating with key stakeholders and partners. To accomplish its mission, CalVet's Veterans Homes Division has a goal of providing the State's aged and disabled veterans with rehabilitative, residential medical care and services in a homelike environment for all veterans (members) residing in the State's six active veterans homes located in Yountville, Barstow, Chula Vista, Ventura, Lancaster, and West Los Angeles.<sup>1</sup> As of the end of January 2013, more than 1,700 members resided in these veterans homes. CalVet is scheduled to begin admitting veterans in October 2013 at two new veterans homes located in Fresno and Redding.

Currently, there is unused space in some of the veterans homes because the number of veterans the homes can accommodate based on their budgets is less than the number of veterans the homes are licensed to serve. As of the end of January 2013, the total number of licensed beds available for members at the veterans homes was 2,248, while the total budgeted capacity was 1,781, and the six active veterans homes were at nearly 96 percent of their budgeted capacity. CalVet records also indicated that there were 563 veterans on waiting lists due to space limitations. According to CalVet estimates, some veterans on the waiting list at the Veterans Home of California–Yountville (Yountville veterans home) currently face a waiting time of five years or more. On the other hand, some veterans on the waiting list at the Veterans Home of California–Chula Vista (Chula Vista veterans home) are projected to gain admission in no more than six months. Unless they receive additional funding, the veterans homes will not be able to increase the number of members they can admit. However, according to the chief financial officer of CalVet's Veterans Homes Division (chief financial officer), CalVet is not currently seeking funding to increase the budgeted capacity at the Yountville and Chula Vista veterans homes and the Veterans Home of California–Barstow.<sup>2</sup> She told us that this is because CalVet is currently preparing to open two new

<sup>1</sup> Under certain conditions, a veteran's spouse may also reside in a veterans home and is counted in that veterans home's census.

<sup>2</sup> According to CalVet's budget officer, CalVet currently has approval from the California Department of Finance and the Legislature for incremental funding (or funding in phases) to operate the Veterans Home of California–West Los Angeles and is scheduled to receive full funding for that home in fiscal year 2014–15. In addition, according to the chief financial officer, CalVet did not need to seek funding for the Veterans Home of California–Lancaster and Veterans Home of California–Ventura because those veterans homes are already operating at full capacity.

### Audit Highlights . . .

*Our audit of the California Department of Veterans Affairs (CalVet) highlighted the following:*

- » *Budget constraints and licensing restrictions have resulted in unused space in some of the veterans homes.*
- » *CalVet has not maximized its ability to generate revenue for the care provided to the veterans residing in its homes.*
- » *State laws and CalVet policies limit its ability to recover the full cost of providing care to veterans while they are living at a home and from offsetting these costs with funds collected from veterans' estates after they pass away.*
- » *Even though it has taken steps to utilize unused space to generate revenue through leases, CalVet does not have a formal process for evaluating opportunities to better utilize unused space.*
- » *CalVet does not monitor its sole public-private partnership agreement with another entity involving unused space; therefore, it is unable to evaluate the success of the agreement.*
- » *Legal restrictions may limit its ability to fully utilize the unused space at the veterans homes.*
- » *To increase its outreach efforts within its limited personnel resources, CalVet uses technology-based strategies to reach a larger number of veterans.*

» *CalVet could benefit from analyzing its current purchasing model and strengthening the oversight of its purchasing practices.*

veterans homes in Fresno and Redding, as well as increasing the occupancy in the skilled nursing level of care at the Veterans Home of California—West Los Angeles. The chief financial officer indicated that CalVet will formally assess the State's bed capacity for veterans' needs after the veterans homes in Fresno and Redding are licensed to determine the most appropriate number of beds for the different levels of care offered at each veterans home.

Additionally, CalVet has not maximized its ability to generate revenue for the care provided to its members. The funding for the annual operating expenses of the veterans homes comes from the State's General Fund, and any revenues that the Veterans Homes Division receives are subsequently remitted to the General Fund. These sources of revenue include payments from the United States Department of Veterans Affairs; reimbursements from federal, state, or private insurance plans—including the Medicare and Medi-Cal programs; and the fees that CalVet charges its members. Between fiscal years 2009–10 and 2011–12, CalVet generated revenues to offset less than half of the cost to operate its veterans homes. However, according to the chief financial officer, before 2012 CalVet did not have policies and procedures for consistently monitoring and increasing the amount of revenue generated at the veterans homes. For example, CalVet headquarters did not have adequate controls in place to ensure that the veterans homes were consistently enrolling and monitoring the status of their members in maintaining coverage in all medical insurance and federal government-funded income programs for which the members were eligible. For example, CalVet headquarters did not have a process to monitor whether eligible members were enrolled in private medical insurance plans or in the Medicare and Medi-Cal programs.<sup>3</sup> By not monitoring the number of members enrolled in these medical insurance plans and programs and comparing them to the number of members who were eligible to receive those benefits, CalVet could not ensure that it was maximizing revenue from these sources. According to the chief financial officer, CalVet staff are now educating members about their health care options and signing them up for coverage when eligible.

State laws and CalVet policies also limit its ability to recover the full cost of providing care to members of veterans homes while they are living at a home and from using funds collected from members' estates after they pass away to offset the costs of their care. Under state law, CalVet can use only a member's annual income in determining the member's fee that CalVet may charge; it is not allowed to consider a member's assets other than income—which may include personal or real property, stocks and bonds,

<sup>3</sup> Medi-Cal is a medical assistance program financed by the State and the federal government.



and automobiles—in the calculation. Moreover, state law limits the total fees members pay to a certain percentage of their annual income, depending on the level of care he or she receives.<sup>4</sup> For example, according to state law, members at the domiciliary level of care may be charged no more than 47.5 percent of their annual income for member fees, while members in skilled nursing care may be charged no more than 70 percent of their annual income. Therefore, most members pay only a portion of their actual costs of care while living at the veterans home. Because CalVet offsets less than half of its annual operating expenditures for the veterans homes with funds from existing revenue sources, it should analyze its cost-recovery models, including an evaluation of the state laws that limit the amount of revenue CalVet can collect for the care it provides to its members at the homes. We believe such an analysis would provide CalVet with useful information that could help it determine how best to offset the costs charged to the General Fund for providing care to members.

CalVet's 2012 strategic plan includes an objective to increase utilization of the unused space at the veterans homes through collaborative relationships with nonprofits, veteran service organizations, and private entities. According to our legal counsel, there are legal restrictions that may limit CalVet's ability to utilize unused space at its homes. We noted that CalVet has taken some steps to better utilize unused space at its veterans homes to generate additional revenue and to serve additional veterans through leases and a public-private partnership agreement with another entity.<sup>5</sup> CalVet's leasing records indicate that, as of November 2012, it had 38 active leases with other entities, including leases for employee housing at the Yountville veterans home. We also noted that CalVet generally worked with the California Department of General Services when necessary to obtain that agency's approval for CalVet's active leases. For fiscal year 2011–12, the Veterans Homes Division generated approximately \$198,000 in revenue from these lease agreements. Although CalVet does not have a formal process for coordinating with the veterans homes to evaluate opportunities to better utilize unused space and increase revenue, the assistant deputy secretary of capital assets stated that CalVet plans to document annually the results of its evaluations of the homes for such opportunities.

<sup>4</sup> The State's veterans homes provide the following levels of care: domiciliary care, residential care for the elderly, intermediate care, and skilled nursing care.

<sup>5</sup> Some of CalVet's lease agreements are with other private entities and are thus public-private agreements; however, because these agreements were not designed to better utilize unused space at the veterans homes to serve more veterans, we included them in our analysis of CalVet's lease agreements that we discuss on page 31.

In addition to leasing unused space, as of November 2012, CalVet had one public-private partnership agreement to serve more veterans than it currently serves in unused space at a veterans home. This agreement enables the Pathway Home, LLC (Pathway Home) to use space and utilities at the Yountville veterans home at no charge in exchange for providing a program of mental health care services to recently separated veterans and active-duty military personnel who have served in Iraq and Afghanistan. However, because CalVet has not monitored the agreement, it does not know whether the Pathway Home has provided the services specified in the agreement or how successful the program is. According to its assistant deputy secretary of capital assets, CalVet plans to include reporting requirements in the agreement currently being renegotiated with the Pathway Home that will allow CalVet to track and monitor the program at the Yountville veterans home to evaluate the success of the partnership and to ensure that the Pathway Home has provided the services specified in the agreement. Although CalVet has not formalized its process for securing additional partnerships, it indicated that it will include measurable outcomes in its new and existing partnership agreements that will allow CalVet to track and monitor them to evaluate the success of those agreements.

CalVet also has a strategic objective to connect veterans with the benefits and services they need to excel, but limited outreach personnel hinders its ability to conduct outreach; thus, many veterans may be unaware of benefits and services for which they may be eligible. However, to increase its outreach efforts within its limited resources, CalVet also uses technology-based strategies to reach a larger number of veterans. For example, CalVet's Web site provides general information about the services CalVet provides for veterans, as well as links to information about various veterans' benefits. Moreover, CalVet is developing a new electronic outreach tool called CalVet Connect. The feasibility study for this tool indicates that it will serve as an integrated veteran contact and demographic database that will enable registered users to actively maintain their contact information and identify areas of interest, thus enabling them to receive targeted benefit and service provider information. The California Technology Agency approved the feasibility study in December 2012. CalVet estimates that CalVet Connect will cost approximately \$1.3 million, with a planned completion in February 2014.

In reviewing the veterans homes' purchasing practices, we concluded that CalVet could benefit from analyzing its current purchasing model and strengthening the oversight of its purchasing practices. CalVet has not conducted a formal analysis comparing its current purchasing model, in which the active veterans homes execute their own purchasing decisions for non-information

technology (non-IT) goods and services, to a centralized model in which CalVet headquarters would be more involved in purchasing for the active veterans homes. Without a thorough cost-efficiency analysis, CalVet could be missing opportunities to leverage its increased buying power and create a more efficient purchasing process by moving to a centralized purchasing model. The assistant deputy secretary for the financial services division acknowledged that such an analysis will provide CalVet an opportunity to look at the finer details of the processes, needs, similarities, and differences among the veterans homes, and she anticipates that CalVet will complete this analysis by December 2013. We also found that CalVet failed to provide adequate oversight and guidance to ensure that purchases made at the individual veterans homes followed state purchasing requirements. As a result, our review of 30 CalVet purchases that occurred during fiscal year 2011–12 found that 12 did not comply with state purchasing requirements. This included eight instances in which the veterans homes did not follow state purchasing requirements to report purchases over \$5,000 to the California Department of Fair Employment and Housing. In January 2013 CalVet instituted new internal controls for purchasing at the veterans homes, including biannual training for both new and current purchasing staff regarding state purchasing requirements.

### **Recommendations**

To ensure it is maximizing its ability to serve veterans in the State's veterans homes, CalVet should follow through with its plan to assess the bed capacity of the homes for veterans' needs after the homes in Fresno and Redding are licensed to determine the most appropriate number of beds for the different levels of care offered at each home.

To ensure that it maximizes its ability to generate revenue at all the veterans homes and better cover the costs of providing care to its members, CalVet should do the following:

- Continue to implement standardized policies and procedures throughout the veterans homes to increase revenue, including its policies and procedures for identifying and enrolling eligible members into federal, state, and private insurance programs, such as the Medicare and Medi-Cal programs.
- Analyze its cost-recovery model, including an evaluation of the state laws that limit the amount of revenue that CalVet can collect for the care it provides to its members at the veterans homes.

To better utilize unused space at the veterans homes, and to serve more veterans within legal restrictions, CalVet should do the following:

- Develop and implement procedures for periodically evaluating all of the veterans homes to identify opportunities to enhance its use of unused space and increase revenue generation, including documenting the results of its evaluations.
- Develop a formal process to seek out additional public-private partnership agreements to utilize unused space at the veterans homes to serve more veterans than it currently serves.
- Identify measures to facilitate monitoring the success of its public-private partnership agreement with the Pathway Home at the Yountville veterans home.
- As part of its 2013 renegotiations with the Pathway Home, CalVet should document its review and evaluation of any legal restrictions that may limit this agreement.
- For any future public-private partnership agreements, CalVet should specify measures in the agreements that will allow it to monitor and assess the success of the agreements, and should document its review and evaluation of any legal restrictions that may limit its authority to enter into the agreements.

To better reach a larger number of veterans who might not otherwise learn about and take advantage of benefits and services to which they are entitled, CalVet should continue to use technology, including implementing CalVet Connect.

To more effectively and efficiently meet state purchasing and procurement requirements, CalVet should do the following:

- Analyze its current purchasing model to ensure that it is the most efficient and cost-effective use when purchasing non-IT goods and services for the veterans homes.
- Continue implementing quality-assurance policies to strengthen its oversight of its purchasing practices, including conducting on-site reviews of the purchasing practices of the veterans homes.

#### **Agency Comments**

In its response, CalVet did not dispute the audit findings and agreed to implement the recommendations.

## Introduction

### Background

More military veterans live in California than in any other state. For federal fiscal year 2012, the United States Department of Veterans Affairs (VA) estimated that 1.9 million veterans resided in California, making up nearly 9 percent of the total estimated United States veteran population. The mission of the California Department of Veterans Affairs (CalVet) is to deliver the innovative services veterans and their families need to be successful, productive Californians in the most efficient and cost-effective manner through aggressively collaborating with key stakeholders and partners. According to its 2012 strategic plan, CalVet has a strategic goal to increase the accessibility and utilization of assisted living and long-term care, housing, and other benefits and services to veterans and their families. The strategic plan also states that CalVet organizes its efforts to serve veterans into three core program areas: Veterans Homes, CalVet Home Loans, and Veterans Services. In the Audit Results, we discuss how CalVet is implementing some of the elements of the strategic plan, including strategic objectives to increase revenues and reduce operating costs in the veterans homes, to increase utilization of unused space at the homes, and to connect veterans with the services they need through outreach.

### Veterans Homes Division

The mission of CalVet's Veterans Homes Division is to provide the State's aged and disabled veterans with rehabilitative, residential, and medical care and services in a homelike environment. In keeping with its mission, the Veterans Homes Division assumes primary responsibility for CalVet's strategic objective of providing the highest-quality long-term care and residential services to veterans (members) residing in the State's veterans homes.<sup>6</sup> Figure 1 on the following page provides a timeline for the opening of each of California's six active veterans homes, located in Yountville, Barstow, Chula Vista, Ventura, Lancaster, and West Los Angeles. CalVet is scheduled to begin admitting veterans in October 2013 at two additional veterans homes in Fresno and Redding.

<sup>6</sup> Under certain conditions, a veteran's spouse may also reside in a veterans home and is counted in that home's census.

**Figure 1**  
Locations of California Veterans Homes and Timeline of Opening Dates



Source: California Department of Veterans Affairs' (CalVet) fiscal year 2013–14 Budget Estimate Package provided to the Legislature (unaudited).  
 \* According to CalVet planning documents, the Veterans Home of California–Redding and the Veterans Home of California–Fresno are not scheduled to begin admitting veterans until October 2013.

CalVet policies state that California veterans who are age 55 and older and were honorably discharged from active military service are eligible to apply for admission into one of the State's veterans homes; however, this age requirement is waived for disabled veterans. Of California's estimated 1.9 million veterans in federal

fiscal year 2012, 1.2 million, or 63 percent, were age 55 or older and thus were potentially eligible for admission into a veterans home. State regulations provide that eligible veterans are admitted on a first-come, first-served basis; however, when a veteran indicates an urgent need for admission, the regulations also require CalVet to evaluate various factors when considering the request, such as whether the veteran is homeless or has a distinguished service record. State regulations also require CalVet to refuse admission to veterans with medical conditions or disabilities that require resources not available at a veterans home, such as certain medical specialists or equipment, or to veterans with a current history of behavioral patterns that would be incompatible with a safe environment at a veterans home.

The State’s veterans homes provide various levels of care to their members. These levels of care, which are defined in the text box, include domiciliary care, residential care for the elderly (residential care), intermediate care, and skilled nursing care (skilled nursing). Table 1 on the following page shows the levels of care available at each of the veterans homes. In addition to the levels of care, CalVet provides outpatient clinics on the sites of most of its veterans homes, as a service to their members. These clinics provide comprehensive, multidisciplinary assessments, as well as ongoing primary care to address members’ routine medical needs. All of the veterans homes have outpatient clinics except for the homes at Lancaster and Ventura, whose members are served by the clinic in the Veterans Home of California–West Los Angeles (West Los Angeles veterans home).

**Levels of Care Provided at the State’s Veterans Homes**

**Domiciliary care:** Provides minimum care and supervision for members who are able to perform all the activities of daily living.

**Residential care for the elderly:** Provides assistance and supervision in activities of daily living.

**Intermediate care:** Provides skilled nursing supervision and supportive care to members on less than a continuous basis.

**Skilled nursing care:** Provides skilled nursing and supportive care to members on an extended basis, including 24-hour inpatient care, with medical, nursing, dietary, pharmaceutical, rehabilitation services, and an activity program.

**Sources:** Titles 12 and 22, California Code of Regulations.

**Delays in Opening Veterans Homes**

Although construction of CalVet’s new veterans homes in Fresno and Redding was completed in April 2012, CalVet had to delay opening these homes because, according to the undersecretary of the Veterans Homes Division, funding was not provided in the state budget to operate the homes during fiscal year 2012–13. Consequently, as mentioned earlier, these veterans homes are not scheduled to begin admitting veterans until October 2013.

The governor’s proposed fiscal year 2013–14 budget includes \$24.4 million for the Veterans Home of California–Fresno (Fresno veterans home) and \$14.3 million for the Veterans Home of California–Redding (Redding veterans home). The governor’s budget also proposes to set aside an additional \$27 million for the

continuing activation of the Fresno and Redding veterans homes and notes that this amount will be refined in the spring of 2013 to reflect the detailed requirements for operating these homes. As Table A in the Appendix indicates, the Fresno and Redding veterans homes are designed to serve up to 300 and 150 veterans in both residential care and skilled nursing, respectively. Further, CalVet developed a plan to begin admitting members to both of these veterans homes starting in October 2013, with a goal of reaching full capacity at the Redding veterans home by July 2015 and full capacity at the Fresno veterans home by November 2016.

**Table 1**  
Levels of Care Available at the California Veterans Homes

LEVEL OF CARE	LOCATIONS OF THE VETERANS HOMES							
	YOUNTVILLE	BARSTOW	CHULA VISTA	LANCASTER	VENTURA	WEST LOS ANGELES	FRESNO*	REDDING*
Domiciliary care	✓	✓	✓					
Residential care for the elderly	✓		✓	✓	✓	✓	✓	✓
Intermediate nursing care	✓	✓						
Skilled nursing care	✓	✓	✓			✓	✓	✓

Source: California Department of Veterans Affairs' Web site.

\* The veterans homes at Fresno and Redding are not scheduled to begin admitting veterans until October 2013.

According to the admissions coordinator for the Veterans Homes Division, CalVet will not officially begin accepting applications for the Fresno and Redding veterans homes until June 2013; however, CalVet has already received letters of interest from veterans seeking to reside in these homes. As of February 2013 CalVet records indicated that a total of 1,105 veterans had submitted letters of interest regarding the new veterans homes, with 421 veterans showing interest in the Fresno home and 684 expressing interest in the Redding home. However, the admissions coordinator told us that these numbers could include duplicates, because some veterans may have submitted letters of interest to both homes.

According to the chief financial officer for the Veterans Homes Division (chief financial officer), the skilled nursing unit at the West Los Angeles veterans home admitted its first member in October 2012, more than two years after initially projected, due in part to the lack of a full-service kitchen, which prevented CalVet from meeting state licensing requirements for that level of care. The West Los Angeles skilled nursing unit is currently licensed for 72 beds. The assistant deputy secretary of capital assets informed



us that in April 2013 the State Public Works Board approved CalVet beginning construction of a full-service kitchen. Once the kitchen is constructed, CalVet's goal is to have the California Department of Public Health (Public Health) license the West Los Angeles skilled nursing unit to the full physical capacity of 312 beds. The assistant deputy secretary for capital assets estimated that the kitchen at the West Los Angeles veterans home will take 18 months to complete. Using current CalVet occupancy plans for the veterans home, we project that the skilled nursing unit at the West Los Angeles veterans home will reach full capacity in February 2017.

### **Oversight of the Veterans Homes by State and Federal Agencies**

The California Veterans Board (Veterans Board) is responsible for determining the policies for all operations of CalVet but is not involved in its day-to-day operations. The Veterans Board consists of seven members appointed by the governor and subject to confirmation by the Senate. The Veterans Board also hears appeals by California veterans who have applied for benefits and wish to appeal any decision made by any division of CalVet.

Furthermore, Public Health's licensing and certification program is responsible for licensing all skilled nursing and intermediate care facilities in California, and licenses these facilities in the veterans homes offering such care. In addition to licensing these health facilities, state law requires Public Health to inspect all skilled nursing and intermediate care facilities at least once every two years for compliance with state laws and regulations. Moreover, on behalf of the federal Centers for Medicare and Medicaid Services, Public Health serves as the state survey agency that conducts periodic federal recertification inspections at participating skilled nursing and intermediate care facilities, which include veterans homes, and it provides inspection results to the homes.

Similar to Public Health's licensing of health care facilities, the California Department of Social Services (Social Services) licenses state residential care facilities, including those in the California veterans homes. State law requires Social Services to conduct site visits as often as necessary to ensure the quality of care provided, and the visits must occur at least once every five years. If Social Services identifies any deficiencies, it must notify the veterans home in writing.

State law normally requires the California Department of General Services (General Services) to supervise state department goods contracts that exceed \$100 and to approve state department service

contracts that exceed \$5,000. However, state law allows General Services to delegate purchasing authority in higher amounts to state departments that adequately meet state purchasing requirements.

Currently, CalVet has a delegated purchasing authority of up to \$50,000 for competitively bid, non-information technology (non-IT) goods and up to \$250,000 for non-IT purchases made from small businesses or disabled veteran business enterprises. According to state law, General Services must perform purchasing authority audits once every three years to ensure that departments are conducting their purchases correctly and may withdraw a department's purchasing authority if it finds that the department's purchases are not in compliance with state purchasing requirements. In addition, state law authorizes General Services to lease veterans home property on terms that are in the best interest of the home. In October 2010, to address deficiencies in its policies and procedures, CalVet developed standardized leasing procedures that required CalVet to work with General Services in establishing its leases.

The VA conducts on-site inspections of the veterans homes annually to determine compliance with applicable requirements for the different levels of care, including requirements concerning medical care and staff qualifications. If the VA identifies a deficiency at a veterans home as part of its inspection, the VA will document the home's corrective action plan to address the deficiency and follow up to determine whether the home adequately addressed the finding.

### **Funding Sources for the Veterans Homes**

CalVet's primary source of funding is the State's General Fund, and it spends a significant portion of its General Fund budget on its veterans homes. The Veterans Homes Division is responsible for administering the State's veterans homes, and the funding for the annual operating expenses of the homes comes from the General Fund. According to the governor's proposed fiscal year 2013-14 budget, in fiscal year 2011-12 CalVet's funding from the General Fund totaled \$194 million—with \$189 million of that amount representing General Fund expenditures for administering the veterans homes in that fiscal year, including approximately \$152 million spent on the operation of the homes, expenditures for the support of the homes by CalVet headquarters, and revenue bond repayments. This \$189 million in General Fund expenditures represents nearly 98 percent of CalVet's funding from the General Fund, with the remaining 2 percent partially funding the Veterans Services Division, which provides services and assistance to California's veterans, dependents, and survivors.

CalVet receives revenue from several sources for the services it provides to the members of its veterans homes. As indicated in the text box, these revenue sources include payments from the VA; reimbursements from federal, state, or private insurance plans—including the Medicare and Medi-Cal programs; and the fees that CalVet charges its members. Revenues that the Veterans Homes Division received are subsequently remitted to the General Fund to offset General Fund expenditures. However, these sources reimburse only a portion of the General Fund’s expenditures. As Figure 2 on the following page indicates, for fiscal year 2011–12, the operating expenditures for the veterans homes were approximately \$152 million, while the revenues received amounted to about \$70 million. Thus, CalVet generated sufficient revenues in fiscal year 2011–12 to offset approximately 46 percent of the cost to operate its veterans homes. We discuss CalVet’s goals and plans to generate additional revenue at the veterans homes in the Audit Results.

### The Effect of CalVet’s Budget and Staffing Requirements on Occupancy in the Veterans Homes

The veterans homes are subject to statutory licensing requirements and state budget allocations that limit the number of beds available for veterans and result in unused space at the homes. The veterans homes must meet legal requirements regarding the number of nursing staff compared to the number of members for skilled nursing, intermediate care, and residential care.<sup>7</sup> In addition, the number of nursing staff a veterans home can employ is limited by its budget. Therefore, the number of members that a veterans home can admit is linked to the number of nursing staff that its budget enables it to employ. For instance, state law requires that there be 3.2 hours of nursing care available per patient day at the skilled nursing level of care. This ratio is based on the total number of nursing care hours available in a given day divided by the average number of members at the skilled nursing level of care on that day.<sup>8</sup> Thus, if a skilled nursing facility had 10 members in a given day, the

#### Primary Sources of Revenue for the Veterans Homes

##### United States Department of Veterans Affairs (VA):

- *Per Diem*: A daily amount paid to each home for each member, depending on level of care.
- *Aid and Attendance*: Funding for members with a disability who need assistance with activities of daily living.

**Medicare**: For those members enrolled in the program, the California Department of Veterans Affairs (CalVet) may receive reimbursements for care provided to members by the veterans homes, as well as reimbursement for certain other expenses, such as those related to members’ pharmaceuticals.

**Medi-Cal**: State-option medical assistance program that includes federal matching funds to provide essential medical care and services to preserve health, alleviate sickness, and mitigate handicapping conditions for members whose income is not sufficient to meet their individual needs.

**Private Insurance**: CalVet receives payments from a member’s private insurance, including health maintenance organizations.

**Member Fees**: According to state law, CalVet charges a percentage of a member’s annual income as determined by his or her level of care.

**Lease Agreements**: Lease income generated from the state-owned property at the veterans homes.

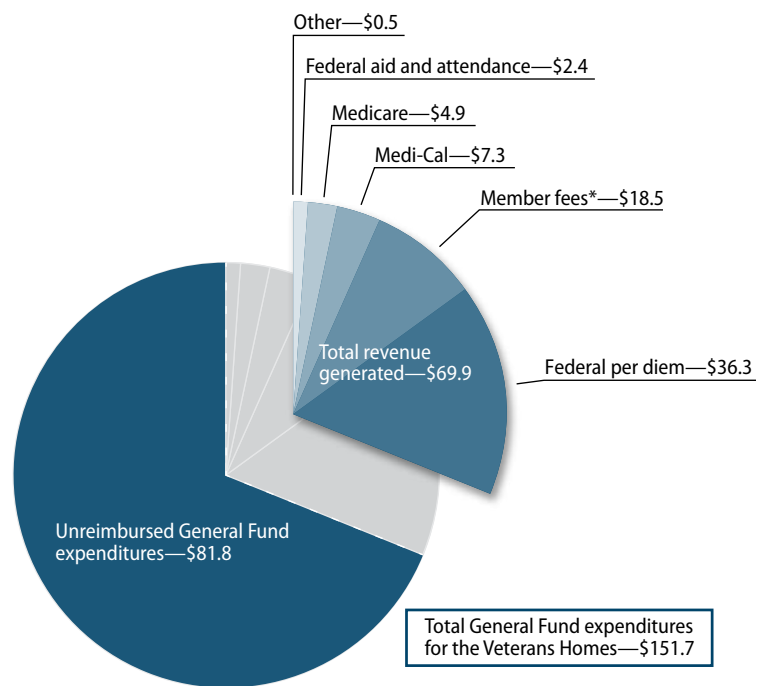
Sources: Title 38, Code of Federal Regulations, Section 51; VA memorandum detailing the rates for the fiscal year 2012–13 per diem program; the Web site for the Medicare program, [www.medicare.gov](http://www.medicare.gov); California Military and Veterans Code, Section 1012.3; State Medi-Cal Web site, [www.medi-cal.ca.gov](http://www.medi-cal.ca.gov); and California State Accounting and Reporting System financial reports.

<sup>7</sup> Domiciliary care is not a licensed level of care, and therefore there are no state staffing requirements.

<sup>8</sup> State law defines *nursing hours* to include work performed by aides, nursing assistants, orderlies, registered nurses, and licensed vocational nurses.

facility would need 32 nursing care hours available that day to meet the required ratio of 3.2 nursing hours per patient day. However, as Figure 3 indicates, CalVet’s total budgeted capacity, which equates to the number of members the veterans homes can collectively serve given their resources and funding, is less than the licensed capacity that Public Health or Social Services has approved for all veterans homes, resulting in unused space. We discuss these staffing requirements in more detail in the Audit Results.

**Figure 2**  
**Total General Fund Expenditures and Reimbursements for California’s Active Veterans Homes**  
**Fiscal Year 2011–12**  
**(In Millions)**



Sources: California State Accounting and Reporting System reports for fiscal year 2011–12.

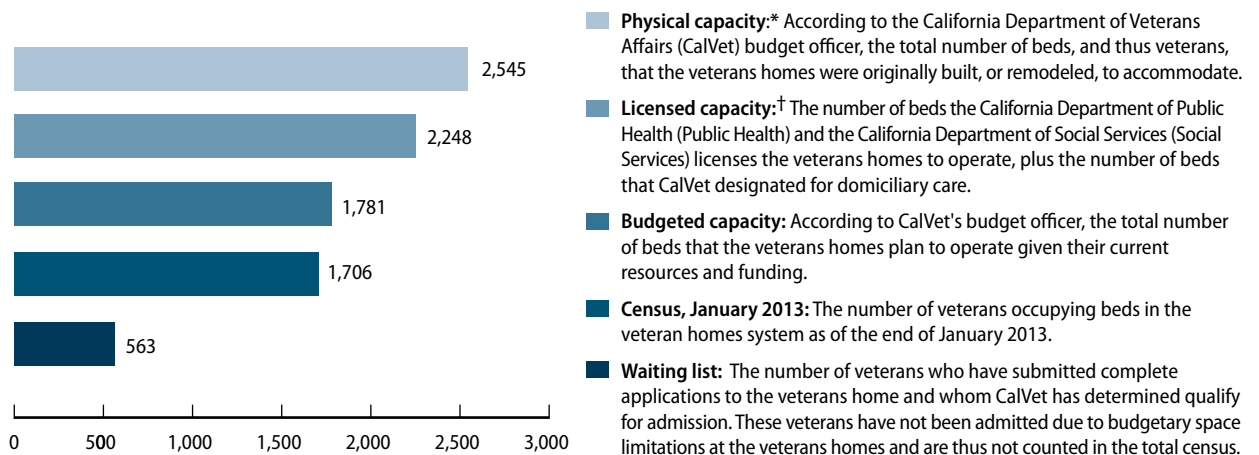
Note: We excluded the Veterans Home of California–Fresno and the Veterans Home of California–Redding because they are not scheduled to begin admitting veterans until October 2013.

\* Veterans that reside in the California veterans homes are charged an annual fee based on their annual income and level of care at their veterans homes.

Figure 3 is based on Table A in the Appendix and presents, as of the end of January 2013, the total physical, licensed, and budgeted capacities of the six active veterans homes, as well as the total census and number of veterans on waiting lists for these veterans homes. As Figure 3 shows, the total number of licensed beds available for

members at the veterans homes was 2,248, while the total budgeted capacity at the veterans homes was 1,781. At the same time, there were 1,706 veterans in the veterans homes—nearly 96 percent of their collective budgeted capacity. In addition, there were 563 veterans on waiting lists due to space limitations at the veterans homes as of the end of January 2013. According to CalVet estimates, veterans on the waiting list for skilled nursing at the Veterans Home of California–Yountville (Yountville veterans home) currently face a wait time of five or more years before they may be admitted. On the other hand, veterans on the waiting list for skilled nursing at the Veterans Home of California–Chula Vista (Chula Vista veterans home) are currently projected to gain admission in no more than six months.

**Figure 3**  
**Total Capacity and Census as of the End of January 2013 at the California Veterans Homes**



Sources: Data on *physical capacity* and *budgeted capacity* are from CalVet’s 2013–14 Budget Estimate Package submitted to the Legislature. Data on *licensed capacity* are from Public Health and Social Services. Data on the *census* and *waiting lists* are from CalVet’s internal reporting documents (unaudited).

\* This number excludes the physical capacity of the Veterans Home of California–Fresno (Fresno veterans home) and the Veterans Home of California–Redding (Redding veterans home). According to CalVet planning documents, the Fresno and Redding veterans homes are not scheduled to begin admitting veterans until October 2013. The Fresno and Redding veterans homes are designed to serve up to 300 and 150 veterans, respectively.

† Domiciliary care is not a licensed level of care. Bed totals are based on physical capacity and shown for consistency.

Unless they receive additional funding, the veterans homes will not be able to increase the number of members they can admit. According to the chief financial officer, CalVet is not currently seeking funding to increase the budgeted capacity at the Yountville and Chula Vista veterans homes and the Veterans Home of California–Barstow.<sup>9</sup> She told us that this is because CalVet is currently preparing

<sup>9</sup> According to CalVet’s budget officer, CalVet currently has approval from the California Department of Finance and the Legislature for incremental funding (or funding in phases) to operate the West Los Angeles veterans home and is scheduled to receive full funding for that home in fiscal year 2014–15. In addition, according to the chief financial officer, CalVet did not need to seek funding

to open the two new veterans homes in Fresno and Redding, as well as increasing the occupancy in the skilled nursing level of care at the West Los Angeles veterans home. The chief financial officer indicated that CalVet will formally assess the State's bed capacity for veterans' needs after the Fresno and Redding veterans homes are licensed, in order to determine the most appropriate number of beds at each level of care at each veterans home.

### Scope and Methodology

The Joint Legislative Audit Committee (audit committee) directed the California State Auditor to perform an audit of CalVet's management of the California veterans homes, including its efforts to improve operational efficiencies and revenue generation, and its planning efforts to leverage resources to serve more veterans. The analysis the audit committee approved contained nine separate objectives. We list the objectives and the methods we used to address them in Table 2.

**Table 2**  
**Audit Objectives and the Methods Used to Address Them**

AUDIT OBJECTIVE	METHOD
1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.	Reviewed relevant laws, regulations, and other background materials.
2 Determine how the system of care for veterans homes is funded, including the extent to which private and federal Department of Veterans Affairs' (VA) payments and fees cover costs.	<ul style="list-style-type: none"> <li>• Interviewed key officials at California Department of Veterans Affairs' (CalVet) headquarters.</li> <li>• Reviewed CalVet's and other state accounting records to identify the federal, state, and private sources of funding for the veterans homes compared to its annual expenditures.</li> <li>• Reviewed relevant statutes regarding the amount of money CalVet may collect for the care provided to the veterans (members) residing in the veterans homes.</li> <li>• Reviewed the development and implementation status of CalVet's policies and procedures designed to increase revenue and offset the costs associated with caring for its members.</li> </ul>
3 Assess the levels of care (residential, assisted living, skilled nursing) provided by each home and the staffing standards used by the homes. Determine whether these staffing standards affect the cost-efficiency and the occupancy goals and objectives of the homes.	<ul style="list-style-type: none"> <li>• Interviewed key officials at CalVet's headquarters.</li> <li>• Reviewed relevant CalVet documents related to nursing staff levels and plans for standardizing staffing levels across all the veterans homes.</li> <li>• Reviewed CalVet documents related to compliance by the veterans homes in meeting nursing staff-to-member ratios in the veterans homes.</li> <li>• Reviewed pertinent external audits to identify any relevant findings or recommendations.</li> </ul>

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for the Veterans Home of California–Lancaster and Veterans Home of California–Ventura because those veterans homes are already operating at full capacity.

AUDIT OBJECTIVE	METHOD
<p>4 Determine whether CalVet leases property or its facilities to other entities and whether opportunities exist to generate additional revenue from unused capacity.</p>	<ul style="list-style-type: none"> <li>• Interviewed key officials at CalVet’s headquarters.</li> <li>• Reviewed relevant court decisions and legal opinions.</li> <li>• Reviewed and assessed CalVet’s leasing policies and procedures.</li> <li>• Reviewed CalVet’s existing lease agreements and tested a selection of those leases to determine whether CalVet followed its leasing policies and procedures and obtained approval from the California Department of General Services when necessary.</li> <li>• Reviewed CalVet’s and other state accounting records to identify the amount of revenue generated from its leases.</li> </ul>
<p>5 Identify any legal restrictions that may prevent CalVet from partnering with third parties to fully utilize property and the unused capacity of the homes.</p>	<ul style="list-style-type: none"> <li>• Interviewed key officials at CalVet’s headquarters.</li> <li>• Our legal counsel reviewed relevant statutes, regulations, court decisions, and legal documents including deeds, grant agreements, and bond statements.</li> <li>• Reviewed a consultant’s report regarding the ongoing needs and long-term planning for facilities and building at the Veterans Home of California–Yountville.</li> </ul>
<p>6 Determine whether the veterans homes system’s purchasing and procurement decisions are centralized or made by individual homes. Review and assess the veterans homes’ procurement policies and procedures for efficiency and cost-effectiveness.</p>	<ul style="list-style-type: none"> <li>• Interviewed key personnel at CalVet’s headquarters and the six active veterans homes.</li> <li>• Reviewed pertinent state manuals regarding state purchasing and procurement requirements.</li> <li>• Reviewed and assessed CalVet’s purchasing and procurement policies and procedures.</li> <li>• Reviewed a selection of CalVet’s purchases and tested those purchases to ensure compliance with state requirements.</li> <li>• Reviewed pertinent external audits to identify any relevant findings or recommendations.</li> </ul>
<p>7 For veterans that CalVet determines need long-term care, assess the process CalVet uses to decide whether some veterans could be served in other facilities, such as nursing homes that receive funding from the VA.</p>	<ul style="list-style-type: none"> <li>• Interviewed key personnel at CalVet’s headquarters and the six active veterans homes.</li> <li>• Reviewed and assessed the veterans homes process for referring veterans to other facilities.</li> <li>• Obtained relevant CalVet documents regarding referring veterans to other facilities.</li> </ul>
<p>8 Evaluate CalVet’s planning process for the veterans’ homes, including its projections of the California veteran population, and determine whether it has a long-term strategy to fully fund and operate the homes at full capacity.</p>	<ul style="list-style-type: none"> <li>• Interviewed CalVet officials to determine how it established its strategic goals.</li> <li>• Reviewed relevant CalVet planning documents, including CalVet’s strategic plan to identify the goals, action plans, and measures of success associated with its long-term strategy.</li> <li>• Determined CalVet’s methods to communicate its strategic planning goals to the veterans homes.</li> <li>• Evaluated the procedures CalVet used to monitor the implementation and track the success of its strategic initiatives at the veterans homes.</li> <li>• Examined the policies and procedures that CalVet is developing to ensure that the veterans homes are operating near budgeted capacity.</li> <li>• Reviewed CalVet’s method for identifying the needs of California’s future veteran population and how it estimates the resources it will require to meet those needs.</li> </ul>
<p>9 Review and assess any other issues that are significant to CalVet’s management of the veterans homes system of care and meeting the needs of returning veterans.</p>	<ul style="list-style-type: none"> <li>• Interviewed key personnel at CalVet’s headquarters.</li> <li>• Reviewed and assessed CalVet’s policies and procedures for outreach to returning veterans to ensure that they are informed about available services.</li> <li>• Reviewed a feasibility study report for approval of a new CalVet system designed to better connect veterans with available services.</li> <li>• Reviewed CalVet’s efforts to obtain additional resources to enhance its outreach efforts.</li> </ul>

Sources: California State Auditor’s analysis of Joint Legislative Audit Committee audit request number 2012-119, and information and documentation identified in the table column titled *Method*.

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## Audit Results

### **The California Department of Veterans Affairs Could Do More to Maximize the Revenue It Receives**

The California Department of Veterans Affairs (CalVet) has not maximized its ability to generate revenue for the care provided to veterans (members) who reside in the State's veterans homes.<sup>10</sup> Between fiscal years 2009–10 and 2011–12, CalVet generated revenues to offset about half of the cost to operate its veterans homes. CalVet has only recently begun developing policies and procedures to monitor and increase the amount of revenue generated at the veterans homes. In addition, state laws and CalVet policies limit its ability to recover from members the full costs of their care while they reside at a veterans home. For example, state laws require CalVet to apply any money it collects from the estate of a deceased veteran to a fund at the veterans home where the member lived, rather than remitting it to the State's General Fund to offset the cost of the member's care. As a result, CalVet is limited in its ability to offset the costs of care provided to its members.

#### ***Until Recently, CalVet Provided Little Oversight of the Processes Veterans Homes Used to Recover the Costs of Caring for Members***

As discussed in the Introduction, CalVet receives funding for the veterans homes from the General Fund, and the revenue the homes generate by providing services to members is remitted to the General Fund. As part of its 2012 strategic plan, CalVet identified an objective to increase revenue and reduce operating costs in the veterans homes, thus becoming less dependent on the General Fund. However, according to the chief financial officer for the Veterans Homes Division (chief financial officer), before 2012 CalVet did not have policies and procedures for consistently monitoring and increasing the amount of revenue generated at the veterans homes.

According to the chief financial officer, before CalVet developed in 2011 a strategy for increasing revenue, it was focused primarily on providing quality care to its members, rather than on generating revenue. Moreover, she indicated that although CalVet received quarterly and annual reports from each of the veterans homes, CalVet headquarters did not have adequate controls in place to ensure that the homes were consistently enrolling and monitoring the status of their members in maintaining coverage in all medical

<sup>10</sup> Under certain conditions, a veteran's spouse may also reside in a veterans home and is counted in that home's census.

***CalVet did not ensure that the veterans homes were receiving the maximum amount of revenue for all services provided to veterans.***

insurance and federal government-funded income programs for which the members were eligible. For example, CalVet headquarters did not have a process in place to monitor whether eligible members were enrolled in the Medicare and Medi-Cal programs.<sup>11</sup> By not monitoring the number of members enrolled in the Medicare and Medi-Cal programs and comparing them to the number of members who were eligible to receive benefits from those programs, CalVet could not ensure that it was maximizing revenue from Medicare and Medi-Cal. In addition, according to the chief financial officer, CalVet did not ensure that the veterans homes were receiving the maximum amount of revenue for all services provided to veterans.

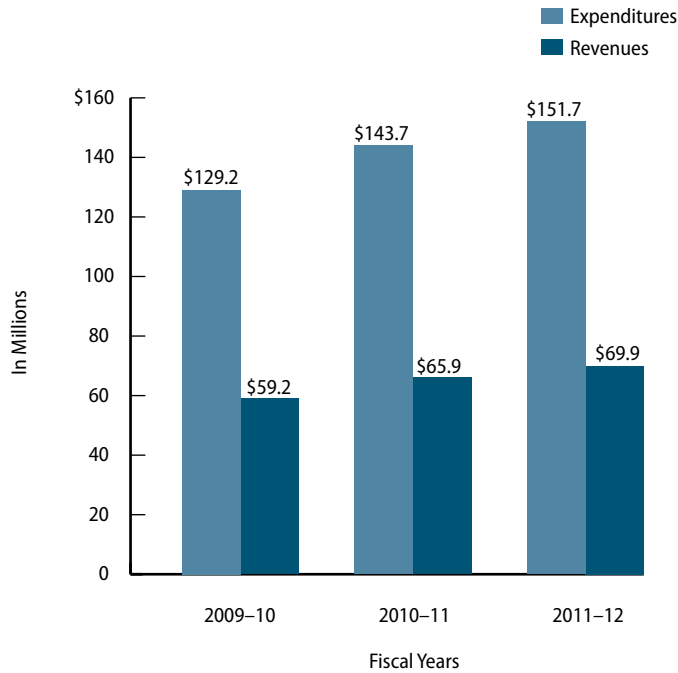
State regulations require veterans seeking admission to a veterans home to be participating in a qualified private, federal, or state health service plan, including the Medicare and Medi-Cal programs, or have an application pending for such coverage. Because CalVet headquarters did not have procedures to monitor the number of members enrolled in Medicare and Medi-Cal before 2011, it is not clear whether all the veterans homes were following this requirement. Moreover, according to a California Veterans Board (Veterans Board) policy, once admitted into a veterans home, a member must maintain, if eligible, participation in a health service plan or risk being discharged from the home. According to the chief financial officer, officials at the veterans homes are currently encouraging members to maintain insurance after they are admitted into the homes. However, she indicated that CalVet currently does not discharge members that do not maintain insurance. Moreover, she told us that CalVet wants to establish regulations to implement certain portions of the Veterans Board's policy requiring members of veterans homes to maintain insurance, which would give the policy the force of law. She further indicated that the Veterans Homes Division is working with CalVet's legal affairs division regarding any restrictions that may prevent CalVet from enforcing this policy. If CalVet implements this policy as a regulation, it likely would have the beneficial effect of decreasing CalVet's unreimbursed costs of care.

As Figure 4 indicates, in fiscal years 2009–10 through 2011–12, CalVet generated sufficient revenues to offset about half of the cost to operate its veterans homes. According to the chief financial officer, CalVet recognizes the importance of fiscal accountability and has developed and instituted oversight policies to improve revenue generation at the veterans homes. For example, CalVet's new oversight policies include a policy implemented in May 2012 that directs the veterans homes to submit monthly reports to CalVet that include information in a range

<sup>11</sup> Medi-Cal is a medical assistance program financed by the State and the federal government.

of areas, such as emergent budget or revenue issues and the status of cost reduction initiatives. Moreover, to offset the costs of care provided to members and generate additional revenue by enrolling more members eligible for Medi-Cal into that program, CalVet provided training in September 2012 for staff at all the veterans homes on the process of enrolling their members in Medi-Cal. According to the chief financial officer, no single health care coverage plan covers a member’s full cost of care. As a result, CalVet staff are educating members about their health care options and signing them up for coverage when eligible. CalVet also plans to coordinate a member’s benefits to maximize reimbursement for the billed costs among various health coverage plans.

**Figure 4**  
**California Department of Veterans Affairs Revenues and Expenditures for the Veterans Homes**  
**Fiscal Years 2009–10 Through 2011–12**



Sources: California State Accounting and Reporting System reports for fiscal years 2009–10, 2010–11, and 2011–12.

Note: We excluded the California Veterans Home–Fresno and the California Veterans Home–Redding because they are not scheduled to begin admitting veterans until October 2013.

Further, according to the chief financial officer, since 2012 CalVet has been in the process of implementing an electronic health record system at all the veterans homes that will streamline its medical billing process and reduce the chance of human error when

*We believe CalVet will experience an increase in revenues if it and the veterans homes follow through in implementing the steps designed to monitor and improve CalVet's revenue generating process.*

preparing electronic claims, enabling it to maintain accurate records of the number of veterans enrolled in federal, state, or private insurance plans, including the Medicare and Medi-Cal programs. The chief financial officer anticipates that the new electronic health record system will be fully operating in all eight veterans homes by the end of 2014.

Because these policies to implement CalVet's 2011 strategy to generate additional revenue at the veterans homes were developed or implemented in mid- to late-2012, it is too soon to know their impact. However, if CalVet and the veterans homes follow through in implementing the steps designed to monitor and improve CalVet's revenue generation process, we believe the department will experience an increase in revenues.

#### ***State Laws and CalVet Policies Limit the Amount of Money That CalVet Can Recover for the Care It Provides to Veterans***

State laws limit CalVet's ability to recover the full cost of providing care to members of veterans homes while they are living at a home, and from using funds collected from members' estates after they pass away to offset the costs of their care. The costs of providing care to members include expenses for room, board, and care at the veterans homes, as well as expenses for medical care. These costs are offset primarily by payments from the United States Department of Veterans Affairs (VA), insurance reimbursements, and the fees that CalVet charges its members.

Under state law, CalVet can use only a member's annual income in determining the member's fee that it may charge; it is not allowed to consider a member's assets other than income—which may include personal or real property, stocks and bonds, and automobiles—in the calculation. Moreover, state law limits the total fees members pay to a certain percentage of a member's annual income, depending on the level of care he or she receives.<sup>12</sup> For example, according to state law, members at the domiciliary level of care may be charged no more than 47.5 percent of their annual income for member fees, while members in skilled nursing care (skilled nursing) may be charged no more than 70 percent of their annual income. Therefore, most members pay only a portion of their actual costs of care while living at a veterans home.

In addition to state laws limiting members' fees to a percentage of their annual income, CalVet has policies that limit the amount that it can collect in member fees. As Table 3 indicates, CalVet has

<sup>12</sup> The State's veterans homes provide the following levels of care: domiciliary care, residential care for the elderly, intermediate care, and skilled nursing care.

established dollar limits on the maximum amount that the veterans homes may charge members as monthly member fees. For example, CalVet policy caps members' fees at \$5,600 per month for skilled nursing care. In addition, CalVet instituted an income-retention policy that allows members of a veterans home to retain \$165 of their monthly income, regardless of fee calculations. This may result in occasions where members' fees are reduced to ensure that they retain at least \$165 per month. According to the chief financial officer, although these policies may limit the amount of revenue that it can generate, CalVet instituted them to ensure that all members have some money each month for their personal use. However, according to our legal counsel, a court would likely hold that these policies constitute unenforceable underground regulations because they were not properly adopted as regulations in accordance with the Administrative Procedure Act, which requires CalVet and other state departments to allow public comments on proposed regulations.

**Table 3**  
**Factors That the California Department of Veterans Affairs Uses in Determining the Unreimbursed Cost of Care of Veteran Residents at Veterans Homes as of March 2013**

MEMBER ACCOUNT COST ITEMS	MEMBER ACCOUNT COST OFFSET ITEMS
<p><b>Daily room and board charges (per level of care) for veterans (members) residing at the veterans home:</b></p> <ul style="list-style-type: none"> <li>• Domiciliary care: \$95*</li> <li>• Residential care: \$95</li> <li>• Intermediate care: \$140</li> <li>• Skilled nursing care: \$175†</li> </ul> <p><b>Other expenditures:</b>                      Any expenditure that a veterans home pays for a member's care and outside services. An example of this type of expenditure is a member's costs associated with outside physician visits.</p>	<p><b>Member fees:</b>                      State law requires that members pay a percentage of their annual income as member fees. The fees are derived from all sources of a member's income and then calculated at a percentage based on the member's level of care. Further, the California Department of Veterans Affairs (CalVet) established dollar limits on the maximum amount of member fees it may charge and allows members to keep \$165 per month, which in some instances may result in a member's fees being less than the calculated percentage of income.</p> <ul style="list-style-type: none"> <li>• Domiciliary care: 47.5 percent of income (fee capped at \$2,400 per month)</li> <li>• Residential care: 55 percent of income (fee capped at \$4,500 per month)</li> <li>• Intermediate care: 65 percent of income (fee capped at \$5,000 per month)</li> <li>• Skilled nursing care: 70 percent of income (fee capped at \$5,600 per month)</li> </ul> <p><b>Federal per diem (daily rate) paid by the U.S. Department of Veterans Affairs:</b></p> <ul style="list-style-type: none"> <li>• Domiciliary and residential care: \$41.90</li> <li>• Intermediate care and skilled nursing care: \$97.07</li> </ul> <p><b>Federal aid and attendance:</b>                      Monthly stipend capped at \$1,038 for some veterans and their family members needing additional assistance with activities of daily living.</p> <p><b>Insurance payments:</b>                      Federal, state, or private insurance plans, including Medicare and Medi-Cal programs.</p>
<p><b>Final Calculation: Total Charges – Member Fees and Other Cost Offset Items = \$ Unreimbursed Cost of Care</b></p>	

Sources: California State Auditor's analysis of federal and state laws and regulations, and CalVet policies and procedures.

\* According to CalVet's current room and board rates, the rate for the domiciliary level of care at the Veterans Home of California–Barstow is \$65.

† According to CalVet's current room and board rates, the rate for the skilled nursing level of care at the Veterans Home of California–Yountville is \$365.

***CalVet needs to pursue all additional sources of revenue, including insurance reimbursements and VA payments, to assist in offsetting the member's cost of care.***

Table 3 shows, for the different levels of care at the veterans homes, the room and board charges and the percentage of members' income that CalVet uses in determining members' fees, as well as the other factors CalVet considers in determining the unreimbursed cost of care for members. As an example of CalVet's calculation of a member's cost of care, a member at the skilled nursing level of care whose annual income is \$24,000 ( $\$2,000 \times 12$  months) would be limited to paying \$16,800 per year in member fees (70 percent of \$24,000). In addition CalVet would receive roughly \$35,430 in annual per diem from the VA ( $\$97.07 \times 365$  days). Thus, CalVet would generate a total of roughly \$52,230, not including other potential revenue, such as other payments from the VA or insurance reimbursements. However, this hypothetical member's room and board costs would be approximately \$63,875 ( $\$175 \times 365$  days) annually, not including any potential unreimbursed costs associated with medical care. Therefore, in this hypothetical scenario, CalVet's cost for caring for the member for one year would exceed the care-related payments by \$11,645. Following this methodology, CalVet maintains for each member a running total of all costs associated with the member's care, the amount of revenue generated to offset the costs, and the net unreimbursed cost of care, according to CalVet's chief of cost accounting and support. To help ensure that CalVet is successful in meeting its strategic objective of increasing revenues and decreasing costs in its veterans homes, it is critical that CalVet pursue all additional sources of revenue, including insurance reimbursements and VA payments, to assist in offsetting the member's cost of care.

State law also limits CalVet's ability to use funds collected from members' estates after they pass away to offset the cost of their care. Specifically, although state law permits CalVet to collect from a member's estate an amount no more than the unreimbursed cost of care for the member, none of the money collected reimburses CalVet for those costs, except for a deceased member's funeral expenses. Instead, state law specifies that the money CalVet collects from a member's estate must go to the Morale, Welfare, and Recreation Fund at the veterans home where the member resided rather than the General Fund, which was the source of funding for the member's care while residing at the home. According to a senior staff counsel in CalVet's legal affairs division, after a member passes away, CalVet's Estates Recovery Unit determines whether there are unreimbursed costs of care for the member and whether there are assets from which CalVet might be able to collect. If such assets exist, CalVet tries to collect a portion of them, if it is legally and financially prudent to do so.

State law established the Morale, Welfare, and Recreation Fund at each veterans home to provide for the general welfare of veterans, including paying for costs associated with entertainment expenses,

sports activities, and celebrations. For example, the Veterans Home of California–Yountville (Yountville veterans home) used the proceeds from its Morale, Welfare, and Recreation Fund in fiscal year 2010–11 to support a library at that home. In addition to receiving money collected from deceased members' estates, the Morale, Welfare, and Recreation Fund at each of the veterans homes includes money received from other sources, such as revenues derived from the issuance of prisoner-of-war special license plates and from donations. Table 4 provides the balances for fiscal year 2011–12 in the Morale, Welfare, and Recreation Fund at each of the veterans homes. As Table 4 indicates, the three oldest veterans homes—at Yountville, Barstow, and Chula Vista—have established the largest Morale, Welfare, and Recreation Fund balances. For example, the Yountville veterans home reported a fund balance of approximately \$4.9 million at the end of fiscal year 2011–12. During that same fiscal year, it collected approximately \$1.7 million from the estates of deceased members, while it spent approximately \$1.5 million from the fund.

**Table 4**  
**Morale, Welfare, and Recreation Fund Balances for Each of the Veterans Homes**

CALIFORNIA VETERANS HOME	MORALE, WELFARE, AND RECREATION FUND—CUMULATIVE TOTAL BALANCES AS OF JUNE 30, 2012*	MORALE, WELFARE, AND RECREATION FUND EXPENDITURES FOR FISCAL YEAR 2011–12	AMOUNTS COLLECTED IN FISCAL YEAR 2011–12 FROM THE ESTATES OF DECEASED VETERANS WHO RESIDED AT THE VETERANS HOMES (MEMBERS) AND HAD UNREIMBURSED COSTS OF CARE	OTHER SOURCES OF FUNDING FOR THE MORALE, WELFARE, AND RECREATION FUND IN FISCAL YEAR 2011–12†
Yountville	\$4,880,421	\$1,453,076	\$1,694,227	\$141,074
Barstow	1,780,609	107,892	176,666	78,392
Chula Vista	1,600,729	308,759	580,028	8,606
Lancaster	1,094	76	1,138	32
Ventura	9,576	1,809	0	10,880
West Los Angeles‡	0	0	0	0
<b>Totals</b>	<b>\$8,272,429</b>	<b>\$1,871,612</b>	<b>\$2,452,059</b>	<b>\$238,984</b>

Sources: California Department of Veterans Affairs' (CalVet) year-end financial reports for the fiscal year ending June 30, 2012 (unaudited).

\* These amounts are cumulative totals of the Morale, Welfare, and Recreation funds at the various veterans homes that include collections from members' estates during fiscal year 2011–12.

† In addition to revenue from members' estates, the other sources of funding for the Morale, Welfare, and Recreation Fund included interest revenue and miscellaneous revenue, among other sources.

‡ CalVet did not report a balance or activity for a Morale, Welfare, and Recreation Fund at the California Veterans Home–West Los Angeles for the fiscal year ending June 30, 2012.

State law prohibits CalVet from using money from the Morale, Welfare, and Recreation funds for medical treatments, maintenance of a veterans home, or any other activity not directly related to the morale, welfare, or recreation of the veterans living at the homes. Moreover, CalVet cannot use these funds to reimburse the costs its legal affairs division incurs when collecting

assets from deceased members. According to CalVet's legal affairs division, the total unreimbursed costs of care for the 228 members who passed away while in the care of the veterans homes in 2011 was \$27.4 million. As of April 2013 CalVet had collected approximately \$2.5 million for 216 of the 228 cases it had closed, none of which reimbursed CalVet for the unreimbursed cost of care it provided. According to a senior staff counsel in CalVet's legal affairs division, there were no additional assets to collect for the 216 closed cases. He also informed us that the total unreimbursed costs for 2012 was \$24.2 million, and CalVet is following its process for collecting available assets from the estates of members who passed away in that year.

CalVet's current cost recovery model results in members accruing a significant amount of unreimbursed costs of care. For CalVet to become more cost-efficient and still provide veterans with quality care, it should reevaluate its current model of recovering costs. According to the governor's proposed fiscal year 2013–14 budget, the cost to the General Fund for operating the veterans homes is anticipated to rise from \$189 million in fiscal year 2011–12 to an estimated \$310 million by fiscal year 2013–14.<sup>13</sup> As mentioned in the previous section, CalVet currently offsets about half of its annual operating expenditures with funds generated from existing revenue sources. Thus, CalVet should analyze its cost recovery model, including evaluating the state laws that limit the amount of revenue CalVet can collect for the care it provides to its members at the veterans homes. For example, CalVet should analyze state laws limiting its ability to collect the actual costs of care from members while they are living at the home, and examine whether a change in the law could result in CalVet collecting additional revenue to offset its direct and indirect costs of care, including administrative costs incurred by CalVet's legal affairs division when attempting to collect assets after members pass away. In addition, CalVet should examine the laws creating the Morale, Welfare, and Recreation Fund at each of the veterans homes and determine whether these funds could sustain themselves using investments, donations, and other sources of revenue. We believe that an evaluation of its cost recovery model, such as we have outlined here, would provide CalVet with useful information that could help it determine how best to offset the unreimbursed costs to the General Fund of providing care to members.

***CalVet should analyze state laws limiting its ability to collect actual costs of care from members and examine whether a change in law could result in collecting additional revenue.***

<sup>13</sup> According to the fiscal year 2011–12 Governor's Budget, CalVet was initially budgeted \$251 million for operating the veterans homes for that fiscal year, but that amount was subsequently reduced in the fiscal year 2011–12 Budget Bill to roughly \$204 million, of which CalVet ultimately spent \$189 million.



### CalVet Is Increasing Its Oversight of Staffing Levels at the Veterans Homes

Until recently CalVet provided limited oversight of staffing at the veterans homes. According to CalVet's assistant deputy secretary of veterans homes operations (assistant deputy secretary of operations), before January 2012 the individual veterans homes were responsible for ensuring that staffing levels on any given day met state and federal requirements. These requirements include state regulations mandating that veterans homes licensed as intermediate care or skilled nursing facilities meet specific nurse-to-member ratios on a daily basis.<sup>14</sup> Further, although state laws do not specify staffing ratios for veterans homes licensed as residential care facilities, state regulations require sufficient staff at these facilities to provide the services necessary to meet members' needs.<sup>15</sup> Because CalVet must staff the veterans homes to meet state and federal requirements, each home must have a certain number of care staff, which are limited by each home's budget.

The assistant deputy secretary of operations indicated that CalVet has been increasing its oversight of staffing levels at each of the veterans homes to ensure that the homes provide quality care in as cost-efficient a manner as possible. For example, he told us that CalVet implemented standardized nurse-to-member ratios in all the veterans homes to meet its 2012 strategic goal of creating fiscal and operational efficiencies while ensuring members' quality of care. Specifically, according to a November 2011 e-mail from CalVet's assistant deputy secretary of operations to the veterans homes, the individual homes are responsible for meeting specified targeted ranges of nurse-to-member ratios for each licensed level of care—skilled nursing, intermediate care, and residential care for the elderly (residential care).

The Veterans Homes Division's director of health care services (health care director) stated that, to assess whether the veterans homes are meeting these targeted ranges, since January 2012 he has been reviewing spreadsheets that the homes complete and submit to headquarters each week showing the numbers of members and staff at each licensed level of care. We reviewed these spreadsheets for 2012 for all six of the active veterans homes and found that they clearly identified whether a home was within the targeted range for the applicable nurse-to-member ratio. We noted three instances in which veterans homes reported staffing ratios that were either

*All the active veterans homes reported each week to CalVet and identified whether each one was within the targeted range for the applicable nurse-to-member ratio.*

<sup>14</sup> The term *nurse-to-member ratio* corresponds to the term *nursing hours per patient day* used in state law. State law defines *nursing hours* to include work performed by aides, nursing assistants, orderlies, registered nurses, and licensed vocational nurses. We use the term *member* in place of *patient* to refer to veterans residing in the state veterans homes.

<sup>15</sup> Domiciliary care is not a licensed level of care, and therefore there are no state staffing requirements.

above or below the targeted range for six or more months during the year. We discussed all three instances with the health care director, and based on the information he provided us regarding the circumstances at each of the veterans homes, we concluded that they had valid reasons for falling outside the targeted ranges. For example, in an instance in which the residential care facility at the Yountville veterans home was below the targeted staffing ratio range for seven months in 2012, the health care director explained that the Yountville veterans home did not have enough budgeted staff positions during the period in question in its residential care facility to meet the targeted ratio range. He further told us in April 2013 that CalVet is looking at creative options to leverage existing staff within the home as well as considering seeking additional staff positions to address this shortage in staff positions at the Yountville veterans home.

In addition to standardizing and monitoring nurse-to-member ratios, CalVet is in the process of developing a standardized staffing model for the veterans homes. According to the assistant deputy secretary of operations, the development of a standardized staffing model for all service departments at the veterans homes is one of CalVet's action steps for meeting its strategic goal of providing the highest-quality long-term care and increasing fiscal efficiencies in each state veterans home. In January 2013 CalVet provided us with a draft standardized staffing model for all the veterans homes. CalVet anticipates approval from the California Department of Finance (Finance) for implementation of the staffing model in fiscal year 2014–15. The health care director told us that he will be responsible for tracking the implementation of the standardized staffing model at the veterans homes and will use a spreadsheet that calculates the difference between the number of positions that a veterans home has and the number of positions designated by the model.

### **CalVet May Have Opportunities to Utilize Unused Space at the Veterans Homes Through Leasing and Partnerships With Other Entities**

Statutory licensing requirements and state budget constraints have limited the number of beds available for veterans, resulting in unused space at the homes. To better utilize this unused space, CalVet leases some of its unused space at its veterans homes and has a public-private partnership agreement to serve more veterans than it currently serves using other space.<sup>16</sup> However, CalVet does not currently have a formalized process for increasing utilization of

*CalVet does not currently have a formalized process for increasing utilization of unused space at its homes through leasing or by securing additional partnerships.*

<sup>16</sup> Some of CalVet's lease agreements are with other private entities and are thus public-private agreements; however, because these agreements were not designed to better utilize unused space at the veterans home to serve more veterans, we included them in our analysis of CalVet's lease agreements that we discuss on page 31.

unused space at its homes through leasing or by securing additional partnerships, and our legal counsel identified several legal restrictions that may limit CalVet's ability to utilize unused space at its homes.

***Legal Restrictions May Limit CalVet's Ability to Utilize Unused Space at the Veterans Homes***

As discussed in the Introduction, the veterans homes are subject to statutory requirements and state budget allocations that limit the number of beds available for veterans, resulting in unused space at the homes. To better utilize its unused space, CalVet's 2012 strategic plan includes an objective to increase utilization of the unused space at the veterans homes at no cost to the State, with innovative programs for veterans through collaborative relationships with nonprofits, veteran service organizations, and private entities. However, our legal counsel noted that there are legal restrictions resulting from promises the State made when obtaining the property for the veterans homes and when financing their construction that could impede CalVet's ability to partner with third parties to lease property at the homes. For example, each of the State's veterans homes was constructed on land that was granted to the State by public or private entities under a deed, and some of these deeds contain restrictions that may limit the State's ability to lease the property. Further, the terms of the construction grants provided to CalVet by the VA may limit the State's authority to lease portions of the veterans homes to third parties. Specifically, each of the agreements for the federal construction grants provides that the federal government may require the State to repay the grants if the State does not use the facilities funded by the grants "principally" for veterans homes. Our legal counsel concluded that as long as the State's principal purpose for the property is to provide veterans homes, CalVet would not violate this term of the grants.

In addition, the construction of some of the facilities at the veterans homes was financed with the proceeds of tax-exempt bonds, including facilities at the new homes in Fresno and Redding.<sup>17</sup> Federal law generally limits the amount of private business activities that may take place within the facilities financed with these bonds to an economic value of no more than 10 percent of the bond proceeds, depending on the type of use. If CalVet exceeds this limit, the bonds would lose their tax-exempt status. When issuing those bonds, the State promised to adhere to this limitation on

***Promises the State made when obtaining property for the veterans homes and when financing their construction could impede CalVet's ability to partner with third parties to lease property at the homes.***

<sup>17</sup> According to the Internal Revenue Code, the interest paid by the State to bondholders is exempt from federal income taxation because such interest payments are not counted as part of the bondholder's income.

private activities. Consequently, our legal counsel noted that CalVet must ensure that it does not violate the terms of the bonds and risk their tax-exempt status.

Our legal counsel also identified some state laws that may limit CalVet's ability to lease to or to partner with other entities to utilize unused space at the veterans homes. For example, under state law, the California Department of General Services (General Services) is normally required to be involved in executing leases of property at the veterans homes. Further, California Government Code, Section 19130, may limit CalVet's ability to enter into agreements with third parties to provide services at the veterans homes, such as food preparation services, when such services are a significant element of the agreement. Specifically, California Government Code, Section 19130, limits the ability of state agencies such as CalVet to enter into service contracts by specifying under what conditions such contracts are permissible. Those conditions include that the contract will achieve cost savings, or that the contract is for services that are not available in civil service, or that it is for a new state function.

Regarding contracts that are for a new state function, Military and Veterans Code, Section 1011(c), enacted in 1996, provides that the veterans homes in Barstow, Chula Vista, Lancaster, and Ventura are a new state function and that CalVet may use contractors to operate these homes. However, our legal counsel noted that this law may conflict with a 1997 California Supreme Court decision that invalidated a law that deemed certain duties of the California Department of Transportation as new state functions that could be performed by contractors.<sup>18</sup> Specifically, the court held that the law violated the "implied civil service mandate" of the California Constitution because the duties covered by the law had been historically performed adequately and competently by civil service employees, and therefore, private contracting was not permissible to perform these duties. Thus, it is not clear whether CalVet could justify contracting for services at these veterans homes solely upon the basis of Section 1011(c), or whether it would need to additionally justify that the contract meets another of the conditions spelled out in California Government Code, Section 19130.

Ultimately, our legal counsel concluded that these laws and promises must be considered together when CalVet considers entering into or making leases or executing service contracts. For example, even if a deed that granted property to CalVet would not prohibit the State from entering into a lease with a third party for certain property at a veterans home, CalVet would also need to ensure that the lease would not violate a promise made in a federal construction grant agreement or a bond statement.

***CalVet would need to ensure that a lease or service contract would not violate a promise made in a federal construction grant agreement or a bond statement.***

<sup>18</sup> *Professional Engineers in California Government v. Department of Transportation* (1997) 15 Cal.4th 543, 572.

As discussed in the Introduction, in October 2010, to address deficiencies in its policies and procedures, CalVet developed standardized leasing procedures that required it to work with General Services in establishing its leases. Although we noted that CalVet generally worked with General Services to obtain that agency's approval when necessary for CalVet's lease agreements active as of November 2012 at the veterans homes, we identified an instance in which CalVet could not provide evidence that it had followed state law. Specifically, CalVet's assistant deputy secretary of capital assets could not provide any evidence that CalVet considered California Government Code, Section 19130, when it entered into a public-private partnership agreement at the Yountville veterans home with the nonprofit organization the Pathway Home, LLC (Pathway Home) that includes some service-related activities. He told us that its agreement with Pathway Home expired at the end of December 2012, and CalVet is currently receiving services from Pathway Home without a contract. Nevertheless, he told us that CalVet is in the process of negotiating a new agreement and that a component of those negotiations will include a documented evaluation of California Government Code, Section 19130, regarding this agreement. We discuss CalVet's agreement with the Pathway Home in more detail later in the report.

### ***CalVet Needs to Formalize Its Process for Leasing the Unused Space at the Veterans Homes***

CalVet has taken some steps to meet its strategic goal to better utilize unused space at its veterans homes to generate additional revenue and to serve additional veterans. However, a lack of formal planning has limited its success in this area. CalVet's leasing records indicate that as of November 2012, it had 38 active leases with other entities. Of these leases, 36 were at the Yountville veterans home, and 20 of these 36 leases were for employee housing. For fiscal year 2011-12, the Veterans Homes Division generated approximately \$198,000 in revenue from its lease agreements. Although CalVet does not have a formal process for coordinating with the veterans homes to evaluate opportunities to better utilize unused space and increase revenue, the assistant deputy secretary of capital assets stated that CalVet plans to document annually the results of its evaluations of the homes for such opportunities.

Although CalVet has some agreements with other entities to analyze long-term planning issues at the Yountville veterans home, it does not have a formalized process to implement its strategic goal for identifying opportunities to utilize unused space at its other veterans homes. In July 2011 CalVet contracted for a comprehensive master plan for its Yountville veterans home that was completed in January 2013. Among other things, the master plan identified ongoing needs for facilities and long-term planning issues for the Yountville veterans home and recommended ways to use existing buildings and property. For example, the master plan noted that the Yountville veterans home

***CalVet does not have a formalized process to implement its strategic goal for identifying opportunities to utilize unused space in all its veterans homes.***

presents opportunities to generate revenue through the potential development of property on the perimeter of its campus, such as a privately developed and operated inn and replacement of the current employee housing.

The master plan also evaluated the home's existing buildings and identified several deficiencies, such as the size of the rooms for members in skilled nursing care in the N. M. Holderman building. Specifically, the master plan noted that nearly all of the members' rooms are double occupancy yet are smaller than the size of a single-occupancy room for skilled nursing care at the Veterans Home of California–Fresno (Fresno veterans home). According to CalVet's current five-year capital outlay infrastructure plan (capital outlay plan) that was submitted to Finance in July 2012, CalVet already plans to replace the current skilled nursing care facility in the N. M. Holderman building with a new 280-bed building directly adjacent to that building. The capital outlay plan indicates that the building project will be funded partly through VA construction grants. However, according to CalVet's assistant deputy secretary of capital assets, the State's funding for the remainder of the project has not yet been identified. The capital outlay plan proposes that the State's share of financing be considered during fiscal year 2013–14. Once the new nursing care facility is built, the capital outlay plan also indicates that space will be available at the N. M. Holderman building for domiciliary care.

The master plan further recommends that CalVet create a water management plan for the Rector Reservoir, which is owned by CalVet and is located across the Napa Valley from the Yountville veterans home property. The reservoir provides water to the veterans home and the town of Yountville. For example, the master plan recommends that CalVet determine the viability of selling additional water from the Rector Reservoir or selling the reservoir. CalVet has an agreement with the California Department of Water Resources for that agency to conduct a study of the Rector Reservoir to assist CalVet in making decisions related to water supply contracts involving the reservoir. The agreement states that the study will review the reservoir's current and projected water supply yield through 2020, among other things. According to the assistant deputy secretary of capital assets, the study is also intended to analyze factors that may affect CalVet's use of the water, and he anticipates that the study will be completed before the end of May 2013. He further stated that once the study is finished, CalVet will evaluate it to determine the feasibility of its recommendations. For example, if the study determines that additional water yields are available, CalVet may explore its options for selling water to other entities.

***CalVet may explore its options for selling water to other entities from the Rector Reservoir, which it owns and provides water to the Yountville veterans home and the town of Yountville.***

According to the assistant deputy secretary of capital assets, CalVet is in the process of evaluating the master plan for the Yountville veterans home, and by December 2013 will prioritize the suggested recommendations to ensure cost-effectiveness and the highest quality of care for veterans served at the Yountville veterans home. He further stated that once CalVet has completed its internal evaluation of the master plan, it intends to formally incorporate a specific set of milestones and objectives into its 2012 strategic plan. These milestones and objectives will include receiving requested input from interested parties, including control agencies, stakeholders, and local leaders, as well as recognizing any barriers to achieving the objectives selected as priorities. In addition, he stated that CalVet will incorporate the renovation or new construction options it has identified during the internal review process into its five-year planning process, including its capital outlay plan.

The assistant deputy secretary of capital assets further noted that CalVet does not intend to contract for master plans for the other veterans homes because they are not experiencing issues similar to those the Yountville veterans home is facing due to its age. Nevertheless, he indicated that to ensure that the Veterans Homes Division is meeting the goals of CalVet's 2012 strategic plan, the division is working with the administrators at each of the veterans homes to evaluate whether there are any opportunities to utilize unused space. For example, the administrator of the Veterans Home of California–Ventura (Ventura veterans home) told us that she is working with CalVet headquarters regarding a potential contract for a cell phone tower at that veterans home to generate additional revenue; however, she anticipates that it may take until December 2013 to finalize the agreement. Although CalVet does not have a formal process for coordinating with the veterans homes to evaluate opportunities to better utilize unused space and increase revenue, the assistant deputy secretary of capital assets stated that CalVet plans to document annually the results of its evaluations of the homes for such opportunities. We would expect that after CalVet determines the appropriate number of beds at each level of care at each veterans home subsequent to the licensing of the Fresno veterans home and the Veterans Home of California–Redding, it would use those determinations in identifying its unused space.

*The Veterans Homes Division is working with each veterans home to evaluate opportunities to utilize unused space, such as working on a potential contract for a cell phone tower at the Ventura veterans home.*

***CalVet Needs to Secure Additional Public-Private Partnership Agreements at the Veterans Homes and Monitor the Success of Its Partnerships***

Although CalVet has, as one of its strategic objectives, the goal of establishing collaborative partnerships to better utilize unused space at the veterans homes and serve more veterans, it does not have a formalized process for securing additional partnerships and has not

monitored the success of its existing agreement. To meet its strategic objective, CalVet has had, since September 2012, an assistant deputy secretary specifically tasked with actively establishing collaborative relationships with nonprofits, veterans service organizations, and private entities to identify potential public-private partnerships at the veterans homes that will use unused space and serve more veterans. That assistant deputy secretary told us that part of CalVet's process is to work with the administrators at each of the veterans homes to identify potential public-private partnerships. Further, he told us that CalVet had developed a matrix to track its efforts toward meeting this strategic objective. However, the tracking document is of limited value because it does not currently specify when efforts included in the document were initiated or the most recent status of the efforts. According to the assistant deputy secretary, beginning in March 2013 he would periodically review the tracking document and update it as needed to reflect CalVet's efforts to identify potential opportunities for public-private partnership agreements. Moreover, he indicated that, as part of CalVet's annual review of its strategic plan, CalVet staff will conduct a formal planning review and document the Veterans Homes Division's efforts in this area over the previous year. While we believe this effort could be helpful to CalVet in identifying approaches that have been successful, we also believe it would be beneficial for CalVet to develop a forward-looking process for establishing public-private partnership agreements that incorporates these approaches.

As of November 2012 CalVet had one public-private partnership agreement to serve more veterans than it currently serves involving unused space at a veterans home. This agreement enables the Pathway Home to use space and utilities at the Yountville veterans home at no charge in exchange for providing a program of mental health care services to recently separated veterans and active-duty military personnel who have served in Iraq and Afghanistan. The Yountville veterans home has had a contract with Pathway Home since 2008. Although the agreement specifies that CalVet may monitor the program's quality assurance measures and may request reports as needed, CalVet has not done so or otherwise monitored the program's success. Because CalVet has not monitored the agreement, it does not know whether the Pathway Home program has provided the services specified in the agreement or whether this agreement's goals have been successful. According to CalVet's assistant deputy secretary of capital assets, CalVet did not monitor the success of the program because the current agreement did not require it to do so. However, the *State Contracting Manual* recommends that state entities monitor and document the performance of contracted services. CalVet's assistant deputy secretary of capital assets indicated that CalVet is currently renegotiating its contract with Pathway Home for 2013 and CalVet plans to include reporting requirements in the new agreement currently being negotiated with Pathway Home that will allow CalVet to track and monitor the program to evaluate the success of

***Because CalVet has not monitored its one public-private partnership agreement, it does not know whether the services and goals specified in the agreement have been provided or that the goals have been successful.***



the partnership and to ensure that Pathway Home has provided the services specified in the agreement. Nevertheless, Pathway Home currently has 34 beds at the Yountville veterans home licensed by the California Department of Social Services as a social rehabilitation facility and is also certified by the California Department of Health Care Services as a transitional residential treatment program.

The executive director of Pathway Home indicated that, as of January 1, 2013, it had nine clients in its transitional residential treatment program. Moreover, he told us that the program opened in 2008, and by the end of February 2013 it had served a total of 290 veterans through its inpatient services and 88 veterans through outpatient supportive services. In addition, he reported that as of August 2012, the program had received completed follow-up surveys from approximately 35 percent of veterans who completed the treatment program, and the survey respondents reported a significant decrease in symptoms of post-traumatic stress disorder and a significant improvement in their quality of life. However, because CalVet is not monitoring the program, it does not know how successful the collaboration is in serving more veterans.

In addition to the Pathway Home program, the assistant deputy secretary of capital assets told us that CalVet is currently in discussions with a research group at the University of California, Davis, hospital to implement a mental health program in the unused space at the Yountville veterans home that would provide brain research and psychiatric treatment for veterans. However, he indicated that CalVet is still negotiating this agreement and has not finalized funding or a timeline for its completion.

To better use unused space at its veterans homes, CalVet should develop a formalized process for identifying, securing, and evaluating public-private partnership agreements with other entities that could provide more services to veterans. One model CalVet could consider for such an approach is viewing the partnerships as pilot programs that require monitoring and evaluation to determine the success of the partnership and whether such a partnership could be successful at other veterans homes. CalVet indicated that it will include measurable outcomes in its new and existing public-private partnership agreements and that it will track and monitor them to evaluate their success.

#### **Limited Resources Impede CalVet's Outreach Efforts to Inform Veterans of Benefits and Services Available to Them**

CalVet conducts multiple forms of outreach to California veterans. The Veterans Services Division's (Veterans Services) outreach activities aim to make all California veterans aware of

*CalVet should develop a formalized process for identifying, securing, and evaluating public-private partnership agreements that could provide more services to veterans.*

benefits and services for which they may be eligible. However, resource limitations have constrained the outreach capabilities of Veterans Services. Consequently, it utilizes technology as one strategy for reaching veterans who might not otherwise learn about the benefits and services available to them.

***Limited Field Personnel and a Lack of Contact Information Hinder Veterans Services' Ability to Conduct Outreach to Veterans***

CalVet has a strategic objective to connect California's veterans with the services they need to excel in the 21<sup>st</sup> century. Veterans Services is responsible for most of this outreach effort, including connecting veterans to their benefits and services. CalVet acknowledged in its 2012 strategic plan that in order to inform California veterans about the benefits to which they are entitled, it must first know where each veteran is and how best to reach him or her. However, according to CalVet's field operations manager, there is no reliable master list of California veterans that the VA or any other entity produces. Thus, CalVet employs multiple outreach strategies to locate veterans in California, including veterans recently separated from active duty.

One strategy for locating veterans is for CalVet staff to attend veterans' events. CalVet has eight field outreach staff and a field operations manager who are responsible for locating veterans and providing them with information about and referrals for benefits and services. To meet this responsibility, its field outreach staff attend a variety of veteran-specific events, including the federal Transition Assistance program and Yellow Ribbon events for returning veterans. Federal law established the Transition Assistance program to provide employment assistance and other transitional services to members of the armed forces who are being separated from active duty. Similarly, federal law established the Yellow Ribbon program for members of the reserve components of the armed forces to help facilitate access to services to support their health and well-being through multiple phases of the deployment cycle, including post-deployment. According to the field operations manager, because California veterans may attend federal veterans' events in other states where they are stationed at the time of their discharge, CalVet's outreach to veterans at these events in California will not reach all of the State's veterans. However, he explained that veterans who do not attend federal veterans' events in California may have opportunities to connect with CalVet at other outreach events, such as job or health fairs.

According to CalVet's field operations manager, when field outreach staff attend veterans' events, they provide veterans with information about their benefits and collect contact information. The benefit information is included in the *Veteran's Resource Book*, which CalVet staff provide to all veterans at these events.

The *Veteran's Resource Book* is a CalVet publication that describes a wide range of benefits and services available to veterans, including education benefits and information about employment opportunities. In addition, the *Veteran's Resource Book* includes information about the VA health care system and VA mental health services for veterans, such as treatment programs for veterans suffering from post-traumatic stress disorder and screenings for traumatic brain injury.

To collect contact information for veterans at the veterans' events, CalVet uses a reintegration form that asks for the veteran's name, address, phone number, and e-mail address. The reintegration form also provides veterans the opportunity to request information from CalVet about a wide range of topics, including information on state benefits, CalVet's home loan program, health care benefits, and compensation and pension benefits. According to CalVet's procedures for capturing a veteran's contact information on the reintegration form, the information is entered into a database called the CalVet Corps System. When information from a veteran is entered, the database generates an automatic e-mail to the veteran that contains hyperlinks to information about specific benefits and services that the veteran requested on the reintegration form. In addition, according to information obtained from CalVet's chief of application and web support, the database generates a notification e-mail containing the veteran's contact information and sends it to CalVet's partners. For example, the database notifies the veteran's county veteran service officer, an individual appointed by a county to assist veterans with presenting and pursuing claims, such as claims for pension, disability, and health care benefits. As of January 2013, according to a report we obtained from the chief of application and web support, the CalVet Corps System contained information on nearly 65,000 California veterans. In addition to printed versions, both the reintegration form and the *Veteran's Resource Book* are available in electronic form on CalVet's Web site.

Because it has limited staff, the field operations manager told us that CalVet staff members cannot always attend the veterans' events that are held. As a result, he told us that he prioritizes major outreach events, such as Transition Assistance programs. He also indicated that when his staff is unable to attend a veterans' event, he will typically offer to coordinate with the sponsors of the event and send printed materials related to veterans' benefits and services, such as the *Veteran's Resource Book*. Nonetheless, due to the limited number of field outreach staff and the fact that they attend veterans' events only in California, many veterans may continue to be unaware of benefits and services for which they may be eligible.

***Due to the limited number of field outreach staff who attend veterans' events only in California, many veterans may continue to be unaware of benefits and services for which they may be eligible.***

CalVet has attempted to get additional funding to increase its outreach efforts. According to the field operations manager, funding constraints for personnel and other resources have, at times, limited the volume and quality of CalVet's outreach to veterans. To address the need to expand its outreach efforts, in January 2012, CalVet pursued a total of \$22 million in funding from the VA spread across seven program years for purposes that included increasing the number of field outreach staff positions from eight to 22 over that time frame. According to CalVet's secretary, senior staff from the VA provided a verbal reply that no funding of the request would be forthcoming in federal fiscal year 2012, but that the VA would review the request again in federal fiscal year 2013. According to CalVet's budget officer, as of March 2013, CalVet has not submitted a similar request for additional state funding to expand its field outreach efforts, including field outreach staff, for budget year 2013–14.

### ***Veterans Services Uses Technology-Based Outreach Efforts to Better Reach Veterans***

To increase its outreach to veterans within its limited resources, Veterans Services also uses technology-based strategies to reach veterans who might not otherwise learn about veteran benefits and services to which they are entitled. For example, CalVet's Web site provides general information about the services CalVet provides for veterans as well as links to information about various veterans' benefits. Further, CalVet offers a mobile application for smartphones and similar electronic devices and has a social media presence on Facebook and Twitter to provide news and information of interest to veterans.

CalVet is also developing a new electronic outreach tool called CalVet Connect. According to CalVet's strategic plan, CalVet Connect will be a web-based portal that will help meet the needs of veterans by providing education and referrals to service providers. In December 2012 the California Technology Agency approved CalVet's feasibility study for the new system. The feasibility study indicates that CalVet Connect will serve as an integrated veteran contact and demographic database that will allow registered users to actively maintain their contact information and identify areas of interest, thus enabling them to receive targeted benefit and service provider information. Moreover, CalVet intends to integrate the new system with its current social media platforms, including Facebook and Twitter. The California Technology Agency's approval letter indicates that CalVet Connect will cost approximately \$1.3 million and will be funded through the General Fund and a reimbursement from the

***To provide news and information of interest to veterans, CalVet offers a mobile application for smartphones and has a social media presence on Facebook and Twitter.***

Assembly Speaker's Office. CalVet's chief information officer stated that CalVet selected a vendor for this project in April 2013, with the implementation planned for completion in February 2014.

### **CalVet Needs to Enhance Its Oversight and Guidance to Its Veterans Homes for Referring Veterans Needing Long-Term Care to Other Facilities**

As discussed in the Introduction, CalVet may deny a veteran admission to a veterans home for several reasons, including a lack of space or to comply with state regulations requiring CalVet to refuse admission to veterans with medical needs that the home cannot meet or with a current history of behavioral issues that would be incompatible with a safe environment at a veterans home. In addition, CalVet has a policy that a veteran who does not have a disability must be age 55 or over to qualify for admission to a veterans home. According to our legal counsel, a court would likely hold that this age policy meets the definition of a regulation in state law, but it was not properly enacted as a regulation in accordance with the Administrative Procedure Act, which generally requires state agencies to allow public comments on a proposed regulation. Thus, our legal counsel concluded that a court would likely hold that the policy constitutes an unenforceable underground regulation.

Although state law does not impose a duty on CalVet to refer veterans to other entities after one of its veterans homes places them on a waiting list or denies them admission, staff at each of the homes indicated that they refer such veterans to other State veterans homes, or facilities and programs within their region, such as VA alcohol and drug treatment programs, nonprofit organizations that provide veteran services, and private nursing homes. For example, according to the lead social worker at the Ventura veterans home, if a veteran is denied admission due to drug or alcohol addiction, staff members will provide the names of treatment programs in the area. Upon completion of a treatment program, the veteran may reapply for admission into the Ventura veterans home. Moreover, the lead social worker at the Veterans Home of California–Lancaster told us that the home may deny admission to some veterans who suffer from severe post-traumatic stress disorder because they exceed the level of care offered at the home. Nevertheless, she told us that staff members at the veterans home will refer those veterans to other facilities, such as a VA Vet Center. Staff members at all of the veterans homes told us that CalVet headquarters provides no oversight or guidance for these referral practices, thus it cannot ensure that its veterans homes are providing adequate and appropriate referral options to veterans who have been placed on waiting lists or denied admission into a home.

*Because CalVet provides no oversight or guidance for referral practices, it cannot ensure that its veterans homes are providing adequate options to veterans placed on a waiting list or denied admission to a home.*

***To standardize the management of admissions and waiting lists at each of the veterans homes, CalVet implemented its Pre-Admission Tracking System.***

CalVet approved a new policy during our audit that will standardize the management of admissions and waiting lists at each of the veterans homes. In January 2013 CalVet implemented its Pre-Admission Tracking System (tracking system) to serve as a standardized tool for prioritizing the admission of veterans to the veterans homes and managing the waiting lists. According to the procedure manual for the tracking system, the principal purpose of the system is to make the application process as fair and transparent as possible. For example, to ensure a standardized process for managing the waiting lists, the new system can prioritize applicants by home and level of care required, and other veterans homes can review the status of an application. Further, the tracking system's policy requires that each veterans home contact those veterans who have been on its waiting list for more than six months by mail or telephone to verify that the veteran is still interested in remaining on the waiting list. This process will help ensure that the waiting lists at the veterans homes do not become outdated. However, because CalVet only recently implemented and required the use of the final version of the tracking system, we could not determine how effective it will be in managing the admissions priorities and waiting lists of the veterans homes. According to the chief financial officer, CalVet is currently working on an audit process that headquarters can use to periodically validate correct use of the tracking system and ensure its success. We believe that, once implemented, this process will allow CalVet to provide oversight to ensure that the tracking system is used consistently by all of the veterans homes.

Another policy approved during our audit is designed to standardize and facilitate the admission of homeless veterans in need of long-term care and provide guidance regarding referrals of homeless veterans to other facilities. According to the policy, homeless veterans who are seeking admission into a veterans home go through an expedited preadmission process that should be completed within one business week. Furthermore, staff members are required to provide homeless applicants who are not eligible for admission into a veterans home with referrals to shelters and programs for homeless veterans available in the community or within the VA. This policy, if followed, should be helpful in ensuring consistent approaches are used at the veterans homes in evaluating homeless veterans for admission and in referring those that homes are unable to admit. We believe a similar policy that provides guidance and oversight for all referrals would be consistent with CalVet's strategic goal to provide the highest quality of care and services to California's veterans, and would help ensure that the veterans homes are consistent in providing adequate and appropriate referral options to veterans who cannot be immediately served in the homes.

In addition to the expedited preadmission process for homeless veterans, the Veterans Homes Division also partners with other entities that conduct targeted outreach to homeless veterans. For example, in March 2011 CalVet entered into an agreement with New Directions, Inc. (New Directions) to provide outreach services for homeless veterans at no cost to the State. New Directions is a nonprofit organization that provides services and programs to assist homeless veterans with the challenges of life after combat and military service. The agreement specifies, in part, that New Directions will work with CalVet staff to perform outreach and place eligible homeless veterans with disabilities in permanent housing at the Veterans Home of California–West Los Angeles (West Los Angeles veterans home). Further, the agreement specifies that New Directions will provide a day program for formerly homeless residents living at the West Los Angeles veterans home that will include peer support groups and substance abuse assistance. As of January 2013 CalVet has received three referrals from New Directions; one veteran was admitted but elected not to enter the home, and CalVet is still reviewing the other two referrals. According to an assistant deputy secretary for CalVet, it does not monitor the success of this agreement, including tracking the referrals it receives from New Directions, because the agreement does not require such monitoring. CalVet's chief financial officer stated that, as a good business practice, to help ensure effective coordination and communication with New Directions, CalVet will continue to schedule training and support for New Directions' outreach and case management staff regarding the admissions criteria for the West Los Angeles veterans home.

In addition to the agreement with New Directions, in July 2011 CalVet entered into an agreement at the West Los Angeles veterans home with the Salvation Army Haven that established a collaborative partnership to facilitate the transfer of homeless veterans from transitional programs and supportive housing to permanent housing at the West Los Angeles veterans home. The agreement is for three years, and there is no cost to either party. Under the terms of the agreement, CalVet has the responsibility to facilitate the admission process and offer a higher-priority admission ranking to applicants referred by the Salvation Army Haven who have successfully completed its program and who also meet the admission requirements at the veterans home. Like the agreement with New Directions, this agreement does not require CalVet to track or monitor the referrals, and the chief financial officer indicated that CalVet has not tracked the referrals from this partnership in the past. According to the executive director of the Salvation Army Haven, five veterans from the program have been admitted into the veterans home since 2011.

*CalVet has not monitored its outreach efforts with partnered entities; thus, it has limited ability to determine whether they are successful.*

Because CalVet has not monitored its outreach efforts with these entities, its ability to determine whether they are successful is limited. The assistant deputy secretary stated that, to help ensure the effectiveness of the agreements, CalVet will include measurable outcomes in its new and existing agreements for veteran outreach and will track and monitor them to evaluate the success of the agreements. Evaluating these agreements will allow CalVet to determine whether they are worthwhile collaborations and whether they could be successful at other veterans homes.

### **CalVet Should Analyze Its Current Purchasing Model and Strengthen Oversight of Its Purchasing Practices**

CalVet has not conducted a formal analysis of its current purchasing model to ensure that it is the most efficient and cost-effective for purchasing goods and services for the veterans homes. Moreover, CalVet has not provided adequate oversight and guidance to ensure that purchases made at the individual veterans homes follow state purchasing requirements. According to state law, CalVet may have its delegated purchasing authority reduced or revoked if it does not comply with state purchasing requirements.

### ***CalVet Has Not Adequately Assessed Its Current Purchasing Model for the Veterans Homes to Ensure That It Is the Most Efficient and Cost-Effective***

According to the assistant deputy secretary for the financial services division, CalVet currently operates using a purchasing model for non-information technology (non-IT) goods and services in which the active veterans homes execute their own purchasing decisions, but it has not conducted a formal assessment of how its purchasing model compares to a centralized model in which CalVet headquarters would be more involved in purchasing for the active homes.<sup>19</sup> In light of the anticipated expansion of the number of active veterans homes from six to eight by October 2013, we believe it makes good business sense for CalVet to evaluate its current purchasing model for efficiency and cost-effectiveness. Without a thorough cost-efficiency analysis, CalVet could be missing opportunities to leverage its increased buying power and to create a more efficient purchasing process by moving to a centralized purchasing model.

<sup>19</sup> According to the assistant deputy secretary for the financial services division, CalVet headquarters performs the purchasing for all new veterans homes until Finance approves funding to hire purchasing staff at the veterans homes. She also told us that CalVet headquarters conducts the purchasing of all IT goods and services for all the veterans homes.



The assistant deputy secretary for the financial services division also told us that CalVet, as well as the veterans homes, currently benefit from using leveraged purchasing agreements, including California Multiple Award Schedules which, according to the *State Contracting Manual*, enable General Services to streamline state purchases by removing repetitive, resource-intensive, costly, and time-consuming bid processes by departments. She further stated that if CalVet moved to a centralized purchasing model, it would have the opportunity to leverage its buying power. According to the assistant deputy secretary for the financial services division, CalVet has not engaged in any discussion or analysis about changing to a centralized purchasing model. However, she agreed that such an analysis will provide CalVet with an opportunity to look at the finer details of the processes, needs, similarities, and differences among the veterans homes. She anticipates that CalVet will complete this analysis by December 2013.

***CalVet Lacks Effective Oversight and Guidance to Ensure That Its Veterans Homes Comply With State Purchasing and Procurement Requirements***

Our review of purchases at each of the six active veterans homes revealed that none of them consistently follows all state purchasing requirements. As discussed in the Introduction, General Services delegated purchasing authority to CalVet. In 2011 General Services conducted an audit of CalVet's delegated purchasing authority and identified a number of deficiencies. Our review of a selection of 30 purchases confirmed that many of the errors that General Services identified are still occurring. Specifically, in our review of five purchases made by each of the six active veterans homes during fiscal year 2011–12 totaling nearly \$550,000, we identified 12 purchases in which the homes did not comply with state purchasing requirements, and the errors we found were the same as those that General Services identified. For example, we found eight instances in which veterans homes did not report purchases over \$5,000 to the California Department of Fair Employment and Housing as required by state purchasing requirements, a deficiency identified by General Services in its 2011 audit.

The errors we identified occurred because CalVet has not provided adequate training or guidance to ensure that its staff members responsible for procurement are sufficiently aware of the State's purchasing requirements. For example, purchasing officials at three of the veterans homes admitted that they lacked knowledge of or training in some state purchasing requirements. CalVet's assistant deputy secretary of the financial services division and managers at each of the veterans homes agreed with our findings, and CalVet is taking steps to improve its oversight and guidance to

***In our review of 30 purchases totaling \$550,000 made by the six active veterans homes, we identified 12 purchases in which the homes did not comply with state purchasing requirements.***

***If CalVet does not comply with state purchasing requirements, General Services may reduce or revoke its delegated purchasing authority.***

ensure that the homes comply with state purchasing requirements. For instance, in January 2013, the assistant deputy secretary of the financial services division instituted new internal controls over purchasing for the veterans homes, including biannual training for both new and current purchasing staff regarding state purchasing requirements. Moreover, the assistant deputy secretary of the financial services division directed all the veterans homes to follow certain best-purchasing practices identified by General Services, including the use of a checklist for each purchase file to ensure that all required documents are included in the files. In addition, beginning in May 2013, the new controls require staff from CalVet headquarters to conduct biannual internal purchasing reviews at each of the veterans homes to ensure, among other things, that all required documentation is in the purchase files.

According to state law, if CalVet does not comply with state purchasing requirements, General Services may reduce or revoke its delegated purchasing authority. Without delegated purchasing authority, state law indicates that departments may purchase, without supervision from General Services, only non-IT goods costing less than \$100. If CalVet and the veterans homes follow through in implementing the steps CalVet designed to improve its purchasing processes, we believe it will experience fewer errors in its purchases.

We also noted during our testing that CalVet's policies and procedures did not accurately reflect state purchasing requirements. For example, CalVet's purchasing procedures did not include the requirement for it to report purchases over \$5,000 to both the State Contract and Procurement Registration System and the California Department of Fair Employment and Housing. In addition, the sequence of steps listed in CalVet's administrative manual to follow when purchasing non-IT goods was incorrect. Specifically, according to state law, a department that is contemplating a purchase must first consider whether the California Prison Industry Authority (prison industry authority) can fulfill the department's purchasing need. However, CalVet's administrative manual directed its purchasers to consider using small businesses or disabled-veteran business enterprises to meet their purchasing needs before considering the prison industry authority. In our review of CalVet's purchases, we identified one instance in which the Veterans Home of California—Chula Vista contracted with a vendor without first considering the prison industry authority. CalVet's assistant deputy secretary for the financial services division acknowledged these errors in its administrative manual, and CalVet revised its administrative manual in January 2013 to comply with state requirements regarding the correct sequence of steps for purchasing.

## Recommendations

To ensure that it maximizes its ability to generate revenue at all the veterans homes and better cover the costs of providing care to its members, CalVet should do the following:

- Continue to implement standardized policies and procedures throughout the veterans homes to increase revenue, including its policies and procedures for identifying and enrolling eligible members into federal, state, and private insurance programs, such as the Medicare and Medi-Cal programs.
- Analyze its cost-recovery model, including an evaluation of the state laws that limit the amount of revenue that CalVet can collect for the care it provides to its members at the veterans homes.

To better ensure that the veterans homes are providing quality care as cost-efficiently as possible, CalVet should continue monitoring the nurse-to-member ratios in the homes and work with the homes as necessary to help them meet the targeted ratios. In addition, CalVet should provide similar oversight to the veterans homes in implementing the standardized staffing model, once it is finalized.

To better utilize unused space at the veterans homes, and to serve more veterans within legal restrictions, CalVet should do the following:

- Use the information in the Yountville veterans home master plan to develop a plan for using unused space at that home to generate revenue and/or serve more veterans.
- Develop and implement procedures for periodically evaluating all of the veterans homes to identify opportunities to enhance use of unused space and increase revenue generation, including documenting the results of its evaluations.
- Develop a formal process for identifying, securing, and evaluating public-private partnership agreements with other entities that could provide services to more veterans than it currently serves, and update its tracking matrix to include the dates when such efforts were initiated or the date of the most recent status of those efforts.
- Identify measures to facilitate monitoring the success of its public-private partnership agreement with the Pathway Home at the Yountville veterans home, as well as its agreements with New Directions and Salvation Army Haven at the West Los Angeles veterans home.

- As part of its 2013 renegotiations with Pathway Home, CalVet should document its review and evaluation of any legal restrictions that may limit this agreement.
- For any future public-private partnership agreements, CalVet should specify measures in the agreements that will allow it to monitor and assess the success of the agreements, and it should document its review and evaluation of any legal restrictions that may limit its authority to enter into the agreements.

To ensure it is maximizing its ability to serve veterans in the State's veterans homes, CalVet should follow through with its plan to assess the bed capacity of the homes for veterans' needs after the homes in Fresno and Redding are licensed, to determine the most appropriate number of beds for the different levels of care offered at each home.

To better reach a larger number of veterans who might not otherwise learn about and take advantage of benefits and services to which they are entitled, CalVet should continue to use technology, including implementing CalVet Connect.

To ensure that it is providing the highest quality of services to veterans, CalVet should do the following:

- Implement oversight and guidance policies to ensure that its veterans homes are providing adequate and appropriate referral options to veterans who have been placed on the waiting list or denied admission into a home.
- Improve its tracking system policy by developing oversight controls so that the system is used consistently by all of the veterans homes.

To allow for public input and to prevent any legal challenges that its policy of capping members' fees, its \$165 monthly income-retention policy for members, and its age and admission policy are unenforceable underground regulations, CalVet should adopt these policies as regulations in accordance with the Administrative Procedure Act.

To more effectively and efficiently meet state purchasing and procurement requirements, CalVet should do the following:

- Analyze its current purchasing model to ensure that it is the most efficient and cost-effective to use when purchasing non-IT goods and services for the veterans homes.

- Continue implementing quality assurance policies to strengthen its oversight of its purchasing practices, including conducting on-site reviews of the purchasing practices of the veterans homes.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the scope section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor

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## Appendix

### TOTAL CAPACITY AND CENSUS OF VETERANS AT THE VETERANS HOMES

The California Department of Veterans Affairs (CalVet) has six active Veterans Homes of California—Yountville (Yountville veterans home), Barstow (Barstow veterans home), Chula Vista (Chula Vista veterans home), West Los Angeles (West Los Angeles veterans home), Lancaster (Lancaster veterans home), and Ventura (Ventura veterans home)—and two additional homes in Fresno and Redding that are scheduled to begin admitting veterans in October 2013. Table A shows, as of the end of January 2013 for each level of care, the physical, licensed, and budgeted capacities, as well as the census of the number of veterans (members) residing at each home and the number of veterans on the waiting lists for each of the veterans homes.<sup>20</sup> As described in the Introduction, the State’s veterans homes provide the following levels of care to their members: domiciliary care, residential care for the elderly (residential care), intermediate care, and skilled nursing care (skilled nursing).

**Table A**  
Capacity and Total Veteran Census as of the End of January 2013 at the California Veterans Homes

HOME	LEVEL OF CARE	PHYSICAL CAPACITY*	LICENSED CAPACITY†	BUDGETED CAPACITY FISCAL YEAR 2012–13‡	CENSUS AS OF THE END OF JANUARY 2013§	PERCENTAGE OF BUDGETED CAPACITY FILLED ACCORDING TO CENSUS AS OF THE END OF JANUARY 2013	VETERANS ON WAITING LIST AS OF THE END OF JANUARY 2013
All Veterans Homes	Skilled nursing	1,027	607	482	447	92.7%	253
	Intermediate care	324	324	165	147	89.1	214
	Residential care	634	307	285	269	94.4	39
	Domiciliary care	1,010	1,010#	849	843	99.3	57
	<b>Totals</b>	<b>2,995</b>	<b>2,248</b>	<b>1,781</b>	<b>1,706</b>	<b>95.8%</b>	<b>563</b>
Veterans Home of California–Yountville	Skilled nursing	295	295	231	218	94.4%	159
	Intermediate care	204	204	105	100	95.2	214
	Residential care	48	48	48	40	83.3	6
	Domiciliary care	682	682#	637	625	98.1	6
	<b>Totals</b>	<b>1,229</b>	<b>1,229</b>	<b>1,021</b>	<b>983</b>	<b>96.3%</b>	<b>385</b>
Veterans Home of California–Barstow	Skilled nursing	60	60	40	37	92.5%	3
	Intermediate care	120	120	60	47	78.3	0
	Residential care	56	NA	NA	NA	NA	NA
	Domiciliary care	164	164#	120	108	90.0	4
	<b>Totals</b>	<b>400</b>	<b>344</b>	<b>220</b>	<b>192</b>	<b>87.3%</b>	<b>7</b>
Veterans Home of California–Chula Vista	Skilled nursing	180	180	180	170	94.4%	19
	Intermediate care	NA	NA	NA	NA	NA	NA
	Residential care	56	55	33	28	84.9	14
	Domiciliary care	164	164#	92	110	119.6	47
	<b>Totals</b>	<b>400</b>	<b>399</b>	<b>305</b>	<b>308</b>	<b>101.0%</b>	<b>80</b>

<sup>20</sup> Under certain conditions, a veteran’s spouse may also reside in a veterans home and is counted in that veterans home’s census.

HOME	LEVEL OF CARE	PHYSICAL CAPACITY*	LICENSED CAPACITY†	BUDGETED CAPACITY FISCAL YEAR 2012-13‡	CENSUS AS OF THE END OF JANUARY 2013§	PERCENTAGE OF BUDGETED CAPACITY FILLED ACCORDING TO CENSUS AS OF THE END OF JANUARY 2013	VETERANS ON WAITING LIST AS OF THE END OF JANUARY 2013
Veterans Home of California–West Los Angeles	Skilled nursing	312	72	31	22	71.0%	72
	Intermediate care	NA	NA	NA	NA	NA	NA
	Residential care	84	84	84	84	100.0	14
	Domiciliary care	NA	NA	NA	NA	NA	NA
	<b>Totals</b>	<b>396</b>	<b>156</b>	<b>115</b>	<b>106</b>	<b>92.2%</b>	<b>86</b>
Veterans Home of California–Lancaster	Skilled nursing	NA	NA	NA	NA	NA	NA
	Intermediate care	NA	NA	NA	NA	NA	NA
	Residential care	60	60	60	58	96.7%	0
	Domiciliary care	NA	NA	NA	NA	NA	NA
	<b>Totals</b>	<b>60</b>	<b>60</b>	<b>60</b>	<b>58</b>	<b>96.7%</b>	<b>0</b>
Veterans Home of California–Ventura	Skilled nursing	NA	NA	NA	NA	NA	NA
	Intermediate care	NA	NA	NA	NA	NA	NA
	Residential care	60	60	60	59	98.3%	5
	Domiciliary care	NA	NA	NA	NA	NA	NA
	<b>Totals</b>	<b>60</b>	<b>60</b>	<b>60</b>	<b>59</b>	<b>98.3%</b>	<b>5</b>
Veterans Home of California–Redding** (Redding veterans home)	Skilled nursing	60	Not yet licensed**	0	0	0.0%	0
	Intermediate care	NA	NA	NA	NA	NA	NA
	Residential care	90	Not yet licensed**	0	0	0.0	0
	Domiciliary care	NA	NA	NA	NA	NA	NA
	<b>Totals</b>	<b>150</b>	<b>Not yet licensed**</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>
Veterans Home of California–Fresno** (Fresno veterans home)	Skilled nursing	120	Not yet licensed**	0	0	0.0%	0
	Intermediate care	NA	NA	NA	NA	NA	NA
	Residential care	180	Not yet licensed**	0	0	0.0	0
	Domiciliary care	NA	NA	NA	NA	NA	NA
	<b>Totals</b>	<b>300</b>	<b>Not yet licensed**</b>	<b>0</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>

Sources: Data on *physical capacity* and *budgeted capacity* at each of the veterans homes from the California Department of Veterans Affairs' (CalVet) 2013–14 Budget Estimate Package submitted to the Legislature. Data on *licensed capacity* are from the California Department of Public Health (Public Health) and the California Department of Social Services (Social Services). Data on *census* and *veterans on waiting lists* are from CalVet's internal documents (unaudited). Information regarding the levels of care are from Title 22, California Code of Regulations. Information regarding the status of the Fresno veterans home and the Redding veterans home are from CalVet's internal planning documents.

NA = The level of care is not currently available at the particular veterans home.

\* *Physical capacity*: According to CalVet's budget officer, the number of beds, and thus veterans (members) that each veterans home was built, or remodeled, to accommodate.

† *Licensed capacity*: The number of beds Public Health and Social Services licenses a veterans home to operate, plus the number of beds that CalVet designated for domiciliary care.

‡ *Budgeted capacity*: According to CalVet's budget officer, the number of beds that each veterans home plans to operate given its current resources and funding.

§ *Census*: The number of veterans occupying beds in a veteran home as of the end of January 2013.

|| *Veterans on waiting list*: The number of veterans who have submitted complete applications to a veterans home and whom CalVet has determined qualify for admission on paper. These veterans have not been admitted due to budgetary space limitations at the veterans home and are thus not counted in the total census.

# Domiciliary care is not a licensed level of care. Bed totals are based on physical capacity and shown for consistency.

\*\* According to CalVet's planning documents, the Fresno veterans home and the Redding veterans home are not scheduled to begin admitting veterans until October 2013. According to the chief financial officer of the Veterans Homes Division, the residential care at both of these veterans homes should be licensed by July 2013, and the skilled nursing at both of these veterans homes should be licensed by November 2013.



As of the end of January 2013, only two of the active veterans homes—Lancaster and Ventura—were operating at or near their full physical capacity. The disparity between physical capacity and budgeted capacity is caused by licensing restrictions and budget allocations that limit the number of beds available for veterans.

Table A shows that the budgeted capacity at each of the veterans homes, which equates to the number of veterans each home can serve based on current resources and funding, is usually lower than the licensed capacity. For example, the Yountville veterans home is currently licensed for 204 intermediate care beds, but it is budgeted for only 105 beds at that level of care. Unless CalVet receives additional funding, its veterans homes will not be able to increase the number of members they can admit.

As discussed in the Introduction, CalVet is increasing capacity in the veterans homes system and then plans to assess needs at the different levels of care statewide. According to the chief financial officer of CalVet's Veterans Homes Division (chief financial officer), CalVet is not currently seeking funding to increase the budgeted capacity at the veterans homes in Yountville, Barstow, and Chula Vista because it is preparing to open two new homes in Fresno and Redding, as well as increasing the occupancy in the level of skilled nursing at the West Los Angeles veterans home. In addition, the chief financial officer indicated that CalVet does not need to seek funding for the Lancaster and Ventura veterans homes because those veterans homes are already operating at or near full capacity. The chief financial officer indicated that CalVet will formally assess the State's bed capacity for veterans' needs after the Fresno and Redding veterans homes are licensed, to determine the most appropriate number of beds at each level of care, at each home. The chief financial officer anticipates that the new veterans homes will be licensed in 2013 and estimates that the formal assessment will begin at the end of fiscal year 2013–14.

Table A shows that, as of the end of January 2013, CalVet's census was at nearly 96 percent of its budgeted capacity for all levels of care at the veterans homes. According to the chief financial officer, the census at a veterans home may not match its budgeted capacity because of residents (members) transitioning between levels of care due to their medical needs. For example, if a member residing in a residential care facility at a veterans home must spend a period of time at a hospital, the member will often return to the home at the skilled nursing or intermediate care level to recuperate until he or she is able to return to residential care.

One veterans home had a census that was above its budgeted capacity for one level of care as of the end of January 2013. The Chula Vista veterans home had 110 members at the domiciliary care

level, which is greater than its 92 budgeted beds for that level of care. According to CalVet's budget officer, at the domiciliary level of care, the actual daily census in a veterans home may be greater than the budgeted capacity because staffing requirements at that level of care are minimal and the care provided is less expensive.<sup>21</sup> As Table A shows, nearly half of the total current budgeted capacity across all of the veterans homes is devoted to domiciliary care for members.

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<sup>21</sup> Domiciliary care is not a licensed level of care, and therefore there are no state staffing requirements.

May 2013

STATE OF CALIFORNIA

EDMUND G. BROWN JR., Governor

**DEPARTMENT OF VETERANS AFFAIRS**

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April 23, 2013

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RE: California Department of Veterans Affairs Audit Report no. 2012-119

The Department of Veterans Affairs (CalVet) thanks the Bureau of State Audits (BSA) for the opportunity to review and respond to draft report no. 2012-119. We value the audit team's professionalism and appreciated their acknowledgement of the positive initiatives implemented by CalVet over such a short period of time. Beginning in 2011, with the new CalVet Veterans Homes leadership, an aggressive streamlining and standardizing effort was undertaken in the Veterans homes to provide premier care for our aged and disabled veterans in the most cost effective manner.

We are actively analyzing departmental operations to ensure the efficient and effective use of resources through initiatives outlined in our strategic plan. While our vision and focus is clear, it is important to note that there are several significant projects that CalVet Homes Division is implementing simultaneously. We are ramping up the West Los Angeles home, and opening both Fresno and Redding Veterans homes. We are implementing the electronic health record system, which includes new processes for accounting and billing, and implementing a statewide pharmaceutical distribution system-Talyst. With so many foundational changes occurring within the CalVet Homes Division, we recognize, as the auditors have noted, that it is still too early to be able to thoroughly evaluate the success of many of our strategies, and we appreciate their recommendations to ensure we are closely monitoring our progress.

California is home to the nation's largest veteran population, seventy percent of whom are over the age of 50. To fulfill the state's commitment to providing premier long-term care for veterans, CalVet proudly administers eight Veterans homes with a firm commitment to effectively and efficiently delivering quality care to our Nation's warriors and their families. This audit report recognizes our efforts and makes recommendations in nine major areas. CalVet has already implemented a number of changes that address these recommendations as outlined below.

**RECOMMENDATIONS**

**RECOMMENDATION # 1:** *Continue to implement standardized policies and procedures throughout the Veterans homes to increase revenue, including its policies and procedures for identifying and enrolling eligible members into federal, state and private insurance programs such as the Medicare and Medi-Cal Programs.*

**CalVet RESPONSE # 1:** BSA's recognition of the standardized policies and procedures put in place to increase revenue, thereby decreasing the General Fund burden is appreciated. CalVet is firmly committed to effectively and efficiently overseeing the cost recovery of services provided by the Veterans homes. Within 60 days, CalVet will develop additional policies and procedures which specifically address identifying and enrolling eligible members into all insurance programs

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for which they are eligible. CalVet will use the expanded functionality of the new electronic health record system to maximizing the department's ability to recover its cost from multiple payers through coordination of benefits.

**RECOMMENDATION # 2:** *Analyze its cost recovery model, including an evaluation of the state laws that limit the amount of revenue that CalVet can collect for the care it provides to its members at the homes.*

**CalVet RESPONSE # 2:** CalVet recognizes that our fee structure and collection of unreimbursed cost of care, mandated by the Military and Veterans Code, is different than most states that charge veterans based on the cost of care rather than a percentage of income. CalVet will analyze the impact a revised fee structure would have on veterans, and develop legislative recommendations after collaboration with the CalVet Board and veteran stakeholders. In addition, CalVet will examine the laws creating the Morale, Welfare, and Recreation Fund at each of the Veterans homes as recommended to determine if each of these funds could sustain themselves.

**RECOMMENDATION # 3:** *CalVet should continue monitoring the nurse-to-member ratios in the veterans homes and work with the veterans homes as necessary to help them meet the targeted ratios. In addition, CalVet should provide similar oversight to the Veterans homes in implementing the standardized staffing model, once it is finalized.*

**CalVet RESPONSE # 3:** As recognized in the audit report, CalVet provides oversight to the Veterans homes on staffing ratios. CalVet researched the nurse-to-member and staff-to-member ratios of private and public entities and based our standards on this research. As indicated in the report, we developed nurse-to-member ratios metrics in November 2011, and we will continue to provide quality care while controlling costs. Moreover, CalVet will continue to work with the Department of Finance on developing a standardized staffing model for the Veterans homes with an anticipated approval for implementation for Fiscal Year 2014-15.

**RECOMMENDATION # 4:** *To better utilize unused space at the veterans homes, and to serve more veterans within legal restrictions, CalVet should:*

- *Use the information in the Yountville veterans home master plan to develop a plan for using unused space at that veterans home to generate revenue and/or serve more veterans.*
- *Develop and implement procedures for periodically evaluating all of the veteran homes to identify opportunities to enhance its use of unused space and increase revenue generation, including documenting the results of its evaluations.*
- *Do a formal process for identifying, securing, and evaluating public-private partnerships with other entities that could provide more services to veterans, and update its tracking matrix to include the dates when such efforts were initiated or the date of the most recent status of those efforts.*
- *Identify measures to facilitate monitoring the success of its partnership agreement with the Pathway Home program at the Yountville veterans home, as well as its agreements with New Direction and Salvation Army Haven at the West Los Angeles veterans home.*
- *As part of its 2013 renegotiations with the Pathway Home, CalVet should document its review and evaluation of any legal restrictions that may limit this agreement.*
- *For any future public-private partnership agreements, CalVet should specify success measures in the agreements that will allow it to monitor and assess the success of the agreements, and it should document its review and evaluation of any legal restrictions that may limit its authority to enter into the agreements.*

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**CalVet RESPONSE # 4:** BSA recognized steps CalVet has taken to better utilize unused space at the homes to generate additional revenue and serve more veterans.

CalVet is currently in the process of evaluating the Yountville Veterans home master plan for opportunities to increase revenue and increase services to veterans. Once an internal evaluation has been completed the Department intends to formally incorporate a specific set of milestones and objectives into the Departments strategic plan by the summer of 2013.

As part of the 2013 renegotiations of the Pathway lease, CalVet intends to document any legal restrictions that may limit the agreement. CalVet further intends to confirm with DGS Real Estate Services Branch that any legal restrictions have been addressed by the State in compliance with the State contract and/or government code.

Evaluation or monitoring criteria has been developed and will be included in the renegotiated lease between the State and the Pathway Home Inc. program. Monitoring criteria will be developed in collaboration with New Directions Inc. and Salvation Army Haven to ensure that the success of each program will be monitored. CalVet included metrics for review and evaluation of program success in the renegotiations with the Pathway Home Inc. and is waiting for response from the program's leadership.

Monitoring criteria for public private partnerships will be developed by June 30, 2013. All new Public Private Partnerships will have monitoring criteria and reporting included within any new agreement.

**RECOMMENDATION # 5:** *CalVet should follow through with its plan to assess the bed capacity of the homes for veterans' needs after the homes at Fresno and Redding are licensed to determine the most appropriate number of beds for the different levels of care offered at each veterans home.*

**CalVet RESPONSE # 5:** CalVet continues to be committed to assessing bed capacity and need on an ongoing basis. CalVet will do a formal study after the Redding and Fresno homes are licensed as noted in this audit.

**RECOMMENDATION # 6:** *To better reach a larger number of veterans who might not otherwise learn about and take advantage of benefits and services to which they are entitled, CalVet should continue to use technology, including implementing CalVet Connect.*

**CalVet RESPONSE # 6:** CalVet will continue to use technology to reach Veterans by developing CalVet Connect. A vendor has been selected and will be awarded the contract in April 2013. The project is expected to start on May 1, 2013. This is a reportable project to the California Technology Agency and they are providing Project Oversight. We anticipate launching CalVet Connect in February 2014.

**RECOMMENDATION # 7:** *To ensure that it is providing the highest quality of services to veterans, CalVet should:*

- *Implement oversight and guidance policies to ensure that its veterans homes are providing adequate and appropriate referral options to veterans who have been placed on the waiting list or denied admissions into a veterans home.*
- *Improve its Pre-Admission Tracking System policy by developing oversight controls so*

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*that the system is used consistently by all the veterans homes.*

**CalVet RESPONSE # 7:** As part of its continuing efforts to improve its programs, prior to the completion of the audit, CalVet developed an audit matrix for monthly review of the Pre-Admission Tracking System. Within 60 days the department will develop an audit schedule to ensure that the system is used consistently by all the Veterans homes. Also, within 60 days CalVet will develop policies on referral options provided to veterans who have been placed on the waiting list or denied admissions into a Veterans home.

**RECOMMENDATION # 8:** *To allow for public input and to prevent any legal challenges that its policy of capping members' fees, its \$165 monthly income-retention policy for members, and its age and admission policy are unenforceable underground regulations, CalVet should adopt these policies as regulations in accordance with the Administrative Procedure Act.*

**CalVet RESPONSE # 8:** CalVet is firmly committed to allowing public input and expects to complete the preliminary rulemaking activities for each of these three proposed regulations by the end of August 2013. After the rulemaking process has been completed, and upon Office of Administrative Law approval, the proposed regulations will be enacted.

**RECOMMENDATION # 9:** *To more effectively and efficiently meet state purchasing and procurement requirements, CalVet should.*

- *Analyze its current purchasing model to ensure that it is the most efficient and cost-effective*
- *Continue implementing quality assurance policies to strengthen its oversight of its purchasing practices, including on-site reviews of the purchasing practices of the veterans homes*

**CalVet RESPONSE # 9:** CalVet agrees to analyze its purchasing model, and concurs with the December 2013 time period provided in this audit. As part of its continuing efforts to improve that process, CalVet has already implemented a checklist and expects to complete the initial on-site reviews of each of the Veterans homes by June 2013.

CalVet is committed to following through on the recommendations by the BSA within the timeframes indicated above. Again, we appreciate the opportunity to respond to this audit report. If you have further questions or need clarification on any portion of our response, please do not hesitate to contact me at (916) 653-2158.

Sincerely,

*(Signed by: Peter J. Gravett)*

PETER J. GRAVETT  
Major General (Retired)  
Secretary

cc: Members of the Legislature  
Office of the Lieutenant Governor  
Little Hoover Commission  
Department of Finance  
Attorney General  
State Controller  
State Treasurer  
Legislative Analyst  
Senate Office of Research  
California Research Bureau  
Capitol Press