DEPARTMENT OPERATING CHARACTERISTICS

Mission

The Residential Health Care Facilities (RHCF) Department is comprised of two facilities: Albany County Nursing Home (ACNH) and Ann Lee Home and Infirmary (ALH). ACNH is a 420-bed facility intended to provide for the physical, mental, spiritual, and emotional needs of residents who require a skilled level of medical care on a 24-hour-a-day basis. These residents, on a whole, due to chronic or acute illness, require skilled nursing observations, assessment, and treatment to assure the availability of the highest quality of life possible for each individual, including dignity, and the highest possible level of autonomy. ALH is a 175-bed facility intended to provide for the physical, mental, spiritual, and emotional needs of residents who require a skilled level of care 24 hours a day. This facility can be distinguished from ACNH by the fact that it was intended to care for the chronically ill resident, not the acutely ill resident. Therefore, the ratio of professional staff to residents is lower, and, hence, the home is less costly to operate. ALH has an obligation to provide the highest quality of life for its residents, including safeguarding their dignity and autonomy.

Legal authority for ACNH and ALH stems from the Albany County Charter, Local Law No. 2, 1979, and Local Law No. 2, 1973. The Homes are regulated and governed by the State of New York through Part 415 of the State of New York Codes, Rules, and Regulations.

The mission of ACNH and ALH as described in the County budget is to provide quality healthcare to the elderly population of Albany County. In accomplishing this mission, the Homes have a series of goals and specific objectives. The goals are outlined below:

- To provide comprehensive programs and services that meet the medical, nursing, therapeutic and nutritional daily living need of 595 residents. To maximize each resident's quality of care and life.
- To ensure safe, secure and sanitary living environments for the residents.
- Maximize facility financial transactions to reduce costs to the taxpayer without reducing quality.
- To create and implement an effective and efficient system which reviews, monitors and evaluates the facilities, programs and functions. The purpose of this activity is to ensure high quality services and resident care which maximizes the utilization of available resources.

Organization and Staffing

Exhibits 5.23 and 5.24 depict the organizational charts for each facility.

Exhibit 5.23
ACNH Organizational Chart

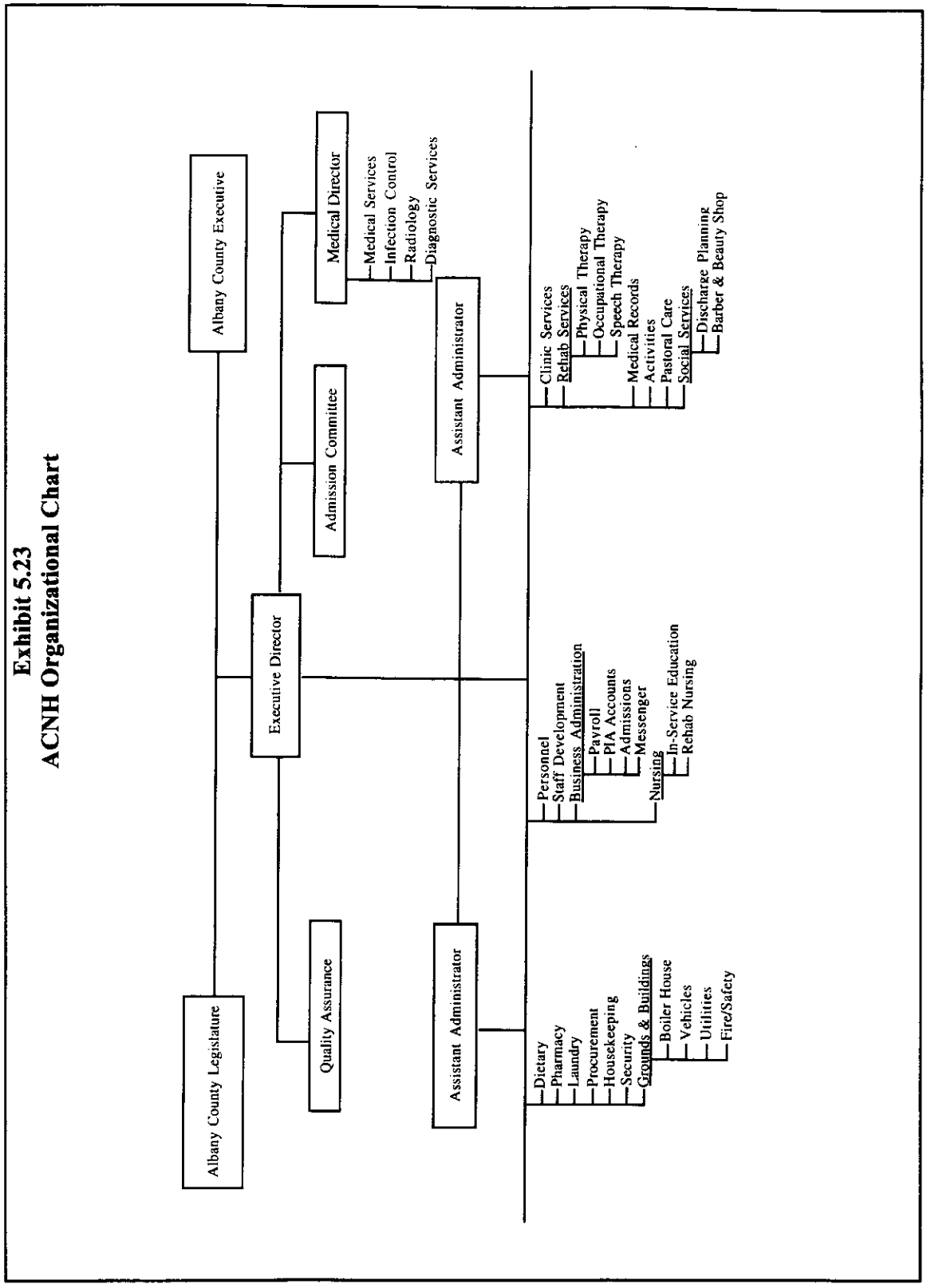
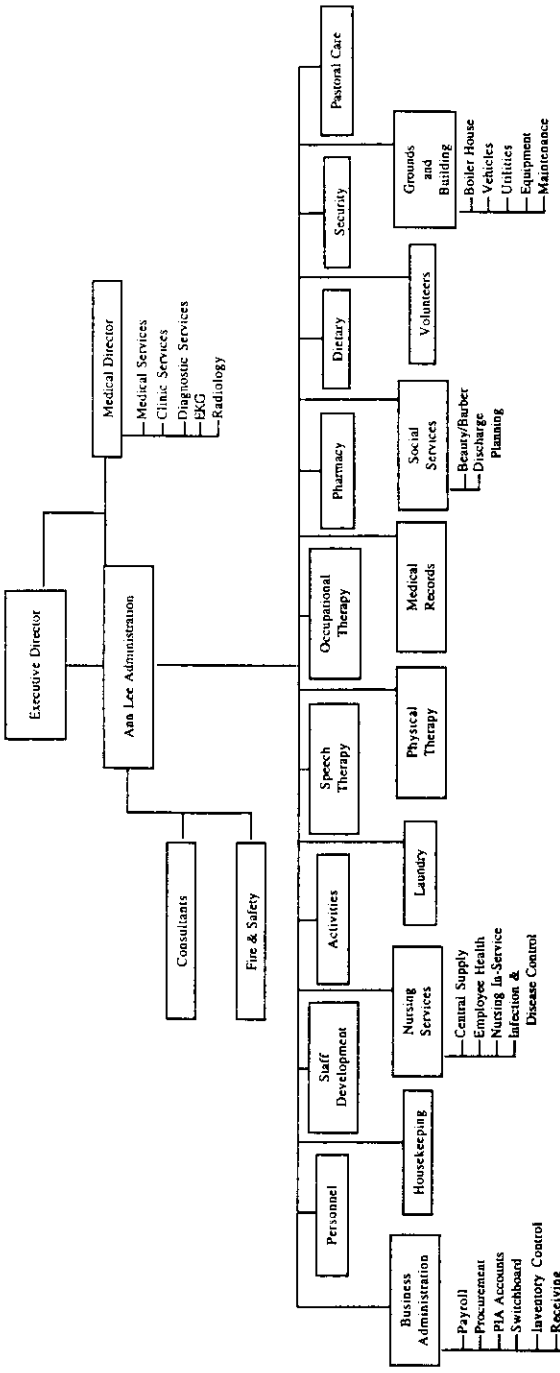


Exhibit 5.24
ALH Organizational Chart



The organization of each County facility is most easily described by the use of three major categories:

- Direct Resident Care. The departments within this category are those responsible for the meeting of each resident's daily, individual needs. Included (but not limited to) are Nursing Services, Medical Services, Social Services, Pharmacy Services, Central Supply, Rehabilitative Services, and Activities.
- Indirect Resident Support. In this category are departments that ensure the immediate environment is conducive to a high quality of life for the resident. The following departments are included in this category: Housekeeping, Laundry, Dietary, Security, Grounds and Building, and Medical Records.
- Facility Compliance and Involvement. The nursing home industry is highly regulated by both State and Federal Government. For a nursing home to remain an asset, contributions to the community and involvement in its growth are necessary. The facilities' administrations meet compliance requirements and ensure the Homes are involved in the communities in which they are located.

Characteristics of Albany County Ownership

The reimbursement system for Medicaid insured residents (88% of the total population) is called the Resource Utilization Groupings (RUGs) system. The RUGs system was implemented in 1986 and establishes per diem amounts for nursing care based on skilled nursing care required by residents. The system is based on State averages that include all categories of ownership (proprietary, not-for-profit, and public). Most county nursing homes are unable to cover operational costs under the RUGs system. This is in part due to an underlying public sector environment in which they operate. For example:

- Albany County benefit packages are provided to all County departments uniformly. In most departments benefit days do not create the demand for replacement of personnel. In the RHCF Department benefit days do create a demand to replace the personnel on leave, as staff positions cannot be left vacant. State and federal regulations define adequate professional staffing required by the case mix index (CMI) currently reported by the facility to the State.

  The CMI is the resulting estimate of the RUGs system's analysis, which also determines the amount of time professional health care providers and nonprofessional providers are required to be on duty in a 24-hour period. Failure to comply with these regulations could result in sanctions or even closing of the facility. As a result, ACNH and ALH paid $429,072 and $168,791, respectively, for overtime in 1994. The 1995 overtime costs for ACNH were $463,749 and $170,904 for ALH.

Other influencing factors reflective only of public ownership include:

- Allocation of County Overhead Costs. In 1994 a total of $380,522 was allocated: $261,258 to ACNH and $119,264 to ALH. Cash payments or charges for services rendered by the County were $182,287 for ACNH and $81,487 for ALH—a 1994 total of $263,774. While many multilevel health care organizations have management level overhead allocations, county homes have less input as to the cost and quality of the services being allocated.
- County Mission Statements. Mission statements describe a commitment to care for the elderly County residents. As a result, many residents are admitted to the Homes after denial of admission to other facilities due to a low RUGs category. This results in the Homes being forced to admit the least financially attractive applicants.
- Co-located, Independent County Homes. The two County nursing homes are considered independent homes by the State. This requires the County to have redundant services and administrative filings. For example, each home has individual:
  - Operating certificates
  - Cost reports
  - RUGs assessments
  - Reimbursement rates
  - Administrators

The nursing home industry is labor intensive. Salary and fringes account for 79% of the cost at ACNH and 74% at ALH. From 1990 through 1994, each Home has had stable staffing levels. Exhibit 5.25 outlines the history of employee levels and Exhibit 5.26 details the increase in fringe benefits.

Exhibit 5.25
Number of Full Time Equivalent Employees

	1990	1991	1992	1993	1994	% Change from 1990 to 1994
Albany County Nursing Home	583	578	573	565	565	-3%
Ann Lee Home	185	205	200	199	203	+10%
Total	**768**	**783**	**773**	**764**	**768**	0%

Source: Filed Medicaid cost reports

Exhibit 5.26
Fringe Benefit Increases

	1991	1992	1993	1994	Change from 1990 to 1994
Albany County Nursing Home	$ 315,000	366,000	289,000	216,000	1,186,000
Ann Lee Home	210,000	166,000	67,000	86,000	529,000
Total	$ 525,000	532,000	356,000	302,000	1,715,000

Source: Filed Medicaid cost reports

The increased cost to the County in the ratio of fringes to salary from 1990 to 1994 represents a current annual cost of $1,715,000.

Fiscal years 1995 and 1996 called for the reduction of positions through attrition. To date, the 32 full-time staff reductions have been realized at both Homes (Exhibit 5.27).

Exhibit 5.27
Staff Reductions

	No. F/T Positions Eliminated	No. P/T Positions Eliminated	Savings Realized Per Year*
Albany County NH	23	4	$ 757,520
Ann Lee Home	9	3	312,221
Total both homes	**32**	**7**	**$ 1,069,741**

* Includes benefits with the exception of Workers' Compensation

Source: Nursing home management report

Financial and Operating Characteristics

The right to operate a nursing home in New York State is controlled by the State Health Department through the Certificate of Need process. As a result of this control, sponsors are effectively given a franchise to operate. While this franchise does not guarantee prosperity, it does guarantee limited competition or nearly 100% bed occupancy. The County controls 24% of the available beds within its boundaries and 11% of the entire Capital Region's beds.

There are three main payer sources for nursing home residents: Medicaid, Medicare, and self-paying residents. The current daily rates for each of these payers as compared to the daily operating cost is shown in Exhibit 5.28.

Exhibit 5.28
Operating Costs and Reimbursement Rates

Albany County Nursing Home	Actual 1994
Operating cost per day	$141.79
Daily reimbursement rates:	
Medicaid (87% of residents)	$121.00
Medicare (4% of residents)	$103.00
Private paying (7% of residents)	$150.00
Weighted average	$121.39
Difference (cost vs. total revenue)	*$(17.27)*

Ann Lee Home	Actual 1994
Operating cost per day	$122.93
Daily reimbursement rates:	
Medicaid (90% of residents)	$97.00
Medicare (0% of residents)	$95.00
Private paying (6% of residents)	$142.00
Weighted average	$99.76
Difference (cost vs. total revenue)	*$(21.70)*

Source: 1994 Medicaid cost report and reimbursement rate sheets

Each Home also derives income through Veterans Administration patient days and ancillary sources such as physician services, vending machines, and laundry services to the County Correctional Facility.

Most New York State nursing homes lose money on the Medicaid system. The strategies employed to alleviate this problem involve admitting a higher level of care patient without incurring increased expenses, targeting private paying residents to offset the loss on Medicaid residents, and expanding services (i.e., specialty beds and adult day care). These strategies are somewhat in conflict with the County mission statement.

5. HUMAN SERVICES

Residential Health Care Facilities

The combined County subsidy and the Generally Accepted Accounting Policy net income losses over the past five years is more than $11.9 million. This is outlined in Exhibit 5.29.

Exhibit 5.29
Net Income and Subsidy (in thousands)

	1990	1991	1992	1993	1994	Total
Net Income: (1)						
Albany County Nursing Home	$ 933	1,458	(431)	(401)	89	1,648
Ann Lee Home	(418)	(572)	(816)	(518)	(1,175)	(3,499)
Total	**$ 515**	**886**	**(1,247)**	**(919)**	**(1,086)**	**(1,851)**
Subsidy:						
Albany County Nursing Home	$ (2,517)	(1,456)	(318)	(602)	(2,646)	(7,539)
Ann Lee Home	(1,036)	(697)	(121)	(452)	(197)	(2,503)
Total	**$ (3,553)**	**(2,153)**	**(439)**	**(1,054)**	**(2,843)**	**(10,042)**
Total:						
Albany County Nursing Home	$ (1,584)	2	(749)	(1,003)	(2,557)	(5,891)
Ann Lee Home	(1,454)	(1,269)	(937)	(970)	(1,372)	(6,002)
Total	**$ (3,038)**	**(1,267)**	**(1,686)**	**(1,973)**	**(3,929)**	**(11,893)**

Source: Audited Financial Statements; (1) loss incurred after subsidy application

Exhibit 5.30
County Benchmarking Cost Guidelines

The following departments were below the benchmarking county comparison.

Albany County Nursing Home	Ann Lee Home
1. Housekeeping	1. Laundry and linen
2. Activities	2. Housekeeping
3. Physical therapy	3. Medical records
4. Pharmacy	4. Transportation
	5. Physical therapy
	6. Occupational therapy
	7. Pharmacy
	8. Nursing

The following departments were slightly over the benchmarking cost comparison, but were a small percentage of the total overage.

Albany County Nursing Home	Ann Lee Home
5. Administration services	9. Fiscal services
6. Patient food service	10. Patient food service
7. Transportation	11. Activities
8. Medical records	12. Social services
9. Social services	13. Physician remuneration
10. Occupational therapy	14. Central service supply
11. Physician remuneration	15. Barber and beauty shop
12. Barber and beauty shop	

Source: KPMG Cost Benchmarking

STRENGTHS

Each Home strives to provide the highest quality of life to residents.

All aspects of residents' lives at both Homes are orchestrated to provide the highest quality of life possible for each individual resident. Hence, what remains is the question of efficiency rather than effectiveness.

The new Director of Nursing Services has begun to influence the efficiency and effectiveness of the nursing department.

A proactive approach to problem resolution and the ability to strike a balance between resident need satisfaction and nursing department cost containment has quickly resulted in savings to ACNH. Salaries, cost of supplies, and materials are currently under revision. Comprehensive instruction and training for all applicable staff to facilitate the accurate documentation and assessment of residents is expected to increase the present case mix index by .03. This could mean an increase in Medicaid revenue of $300,000.

Several departments in the Homes operate financially within county nursing home benchmarking guidelines.

As part of this study, a benchmarking cost comparison of the County's Homes versus other county homes was conducted. For this comparison, costs were divided into 19 service areas. Four of the areas in ACNH and 8 in ALH came in below the benchmark average. The cost areas are outlined in Exhibit 5.30.

At ACNH, the 12 departments listed account for 30% of total operating cost. The 7 remaining departments, which were significantly over the standard, are discussed in the Findings Section of this report. The remaining 7 departments were over the standard by $2,682,000 (fiscal, plant operations, laundry, nursing administration, security, central supply, and nursing).

At ALH, the 15 departments listed account for 53% of total operating cost. The remaining four departments were administration, security, plant operations, and nursing administration, which accounted for an overage of $617,000.

IMPROVEMENT FINDINGS AND RECOMMENDATIONS

Finding: **Public ownership of Nursing Homes may no longer be the most efficient and effective way to provide care for the elderly.**

The County has subsidized the operations of the Homes by $10 million dollars from 1990 through 1994. In addition, the financial statements have included over $1.8 million in accounting losses above the subsidy payments. Therefore, a total economic loss of $11.9 million has been incurred (Exhibit 5.29).

Recommendation: **Explore the option of allowing a separate entity to take control of the operations and/or property ownership.**

An option that is being considered by numerous counties is to change facility management and/or ownership. This option does not call for the closing of the beds; rather, it evaluates turning over the management to long-term care facility professionals. In the industry, not-for-profit and for-profit long-term care facilities are now the norm, and as the population ages, the industry is expected to expand and change to meet both population demands and cost constraints.

As a provider of nursing home services, any changes to the ownership structure would require approval by the New York State Department of Health (DOH). An application called a Certificate of Need (CON) would be reviewed by various agencies with an eventual approval or denial received from the Commissioner of Health. This review process may take from one to two years to complete.

The County could seek to pursue one of the following ownership changes for each or both facilities.

Scenario	Property Owner	Operator
1	County	Voluntary or Proprietary
2	Voluntary	Voluntary
3	Proprietary	Proprietary

Following are brief descriptions of each of the scenarios. The license to operate beds is considered a valuable document due to the strict control by the State. Many current nursing home operators who wish to expand their bed capacity or other health care providers, that is, hospitals, would be the most likely candidates to become the new operator and/or property owner.

Scenario #1

In Scenario #1 a voluntary (not-for-profit) or a proprietary (for-profit) entity obtains the right to operate the entire operation while leasing the physical structure from the County. Therefore, the County retains ownership of the buildings and receives rental payments.

Scenario #2

In Scenario #2 a voluntary (not-for-profit) entity obtains the right to operate the entire operation and owns the physical plant. The County would have no further control of the nursing home operation.

Scenario #3

The third scenario would allow a proprietary (for profit) entity to obtain the right to operate the entire operation and own the physical plant. The monetary difference between the second and third options would be the addition of the property to the property tax rolls.

Benefit: Many regulatory and technological changes have dictated higher efficiency within the long-term care industry. Successful long-term care operators have found that efficiency of every day operational practice quickly leads to the ability to increase the quality and scope of services provided for the residents.

Additionally, any of the three scenarios provide the opportunity for the facilities to become part of a health care network. As part of a network, management will be in a better position to negotiate with managed care insurers.

Fiscal Impact: Any of the three scenarios would not affect fiscal changes for Albany County for two to three years depending on the expediency of the process. The fiscal impact of Scenario #1 lies in the elimination of the subsidies for the Homes (average $2,379,000 per year) and possibly revenue for the County from the lease of the buildings.

If negotiated, the lease amounts would likely be in the vicinity of the Medicaid property reimbursements of $500,000 for Albany County Nursing Home and $320,000 for Ann Lee Home. If the facilities were sold, the state would allow the new owner reimbursement on the remaining historical cost of approximately $3.8 million and $3.1 million for the County Nursing Home and Ann Lee Home, respectively.

Additional savings for the County may be realized with the discontinuation of services provided to the Home by other County departments; (computer services/procurement/personnel).

A for-profit operator would provide for the elimination of subsidies, possible downsizing of other County departments, and increased revenue from the addition of the property to Albany County's tax roles.

Implementation Issues: If the decision is made to relinquish some form of ownership of one or both of the nursing homes, the implementation process would entail the following steps:

1. Decisions as to the proposal criteria will be needed. For example, the County may want to have conditions of transition such as the number of employees who must be retained, the benefits to be kept by employees, access to a defined number of beds by the County, and a number of County appointed people on the Board of Directors. The retention of any control would require significant legal advise.

2. The union will need consultation. The Home's 800 civil service employees may be impacted in the areas of staffing levels, employment opportunities, salary, and benefits. Members of the Service Employees International Union are entitled to working conditions and benefits as stipulated in the negotiated labor agreements. The existing labor agreement appears to contemplate the possibility of privatization: under Article 47, Section 2, there appears to be a right of succession clause. Thus, the employees would continue to be civil employees. The County would need legal counsel on this issue.

3. As with all actions taken at the site, the Shaker Society must be consulted as to their position on a new owner.

4. A request for proposals would need to be drafted and issued. Meetings with potential take-over entities would subsequently be held.

5. Once an acquirer has been chosen, the details of the transition must be decided. Operationally, the Homes use certain "downtown" functions that would be undertaken by the new owner.

6. Notification to the New York State Department of Health (DOH) would be required. An application called a Certificate of Need (CON) would be filed by the new entity. This application goes through four levels of review as to the new owner's status (1) Character and Competence, (2) Financial Feasibility, (3)

Architectural Analysis and (4) Patient Care and Quality. This review process may take 12 to 18 months.

Finding: **Albany County Nursing Home has had the opportunity to admit ventilator-dependent residents, but does not have the capability nor the State approval for such an admission.**

The State's Medicaid system allows for enhanced reimbursement for "specialty units." These are resident units which are set up to care for a certain type of patient. They include AIDS, secured behavioral units (dementia), ventilator dependent, and traumatic brain injury. Based on conversations with administration it appears that ACNH has had the opportunity to admit ventilator dependent residents.

Recommendation: **Explore the establishment of the area need for ventilator dependent residents and the additional revenue and expenses for these admissions.**

The designation of a specialty unit would further the ACNH's mission of providing quality care to the people of the County. Upon completing the needs analysis for the ventilator unit, a determination of the amount of designated beds required can be made. The payor source of the population should also be documented. There may be the opportunity to admit managed care patients with a negotiated daily rate.

Benefit: The designation of the present 20-bed "intake" unit as the ventilator-dependent area would allow for the removal of an inefficient geriatric sized unit. Revenue enhancement from this change would come from the following areas in the Medicaid rate.

Reimbursable Costs:

- The Case Mix Index used to calculate the facility specific mean price for each patient classification group is increased by an increment of 1.15.
- Central Service Supply will be considered a non-comparable cost (not subject to peer group comparisons). Prescription drugs specific to the ventilator dependent are non-comparable costs.
- Ventilator-specific medications are considered non-comparable costs.

Fiscal Impact: While there will be costs associated with the planning, Certificate of Need (CON) filing, and possibly construction, the additional yearly revenue should more than offset these one-time expenditures. The estimated increased revenue for a 20-bed ventilator unit would be $450,000. The additional costs from incremental staffing, supplies and capital improvements would have to be compared to the additional revenue.

	Year 1	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Cumulative Amounts*
ACNH SNF Only Revenue	$19,461,843	$19,461,843	$19,461,843	$19,461,843	$19,461,843	$97,309,215
ACNH SNF with 20 Vent Beds	$20,465,574	$20,465,574	$20,465,574	$20,465,574	$20,465,574	$102,327,871
Savings	**$1,003,731**	**$1,003,731**	**$1,003,731**	**$1,003,731**	**$1,003,731**	**$5,018,656**

Implementation Issues: If further investigation shows that there is a need and the program would be financially feasible, a Certificate of Need (CON) should be filed. The State review of the CON takes twelve to twenty-four months to complete. After successful completion of the review process, the State will enhance the Medicaid rate to pay for the additional operating and capital expenses.

Finding: **The Physical Plant at Ann Lee Home is outdated and a constraint to providing care.**

The ALH was originally constructed around 1930 and underwent a major renovation in the mid-1970s. Over time, the definition and characteristics of a nursing home patient have evolved into one which requires a much higher level of care, which has put a strain on the plant. However, DOH has grandfathered the physical plant into the health system. Current problems revolve around community bathrooms, short corridor widths, lack of air conditioning in the resident rooms, and the inappropriate number of elevators. Due to these physical plant constraints, excess operating costs are incurred, the work environment is negatively affected, and the residents' quality of life is lessened.

An admission policy of allowing the lower level of care patient into ALH is in place to try and "work around" the current structural problems. These problems include the following areas:

- Community bathrooms. Newer homes must have bathrooms in each resident room. Since the Home only has facilities at either end of the hall, the units are divided between male and female. This causes excess staffing time in toileting patients and lowers the residents' quality of life.

- Lack of elevators. The Home has only two elevators for resident transportation. Since the dining room is centrally located, each meal must be coordinated to allow for resident travel time.

- Hall and bedroom space. Newer homes are built with ten foot corridors and large patient rooms. These specifications are used to allow for easier wheelchair access.

- Air conditioning. The Home makes extensive use of ceiling fans in the resident rooms.

- Boiler efficiency. The utility expense at the Home is extremely high even compared to the air conditioned ACNH. Currently, construction of a new boiler system is planned to begin in the Spring. This should help lessen the problem.

Recommendation: **Explore the option of allowing a separate entity to take control of the operations and/or property ownership or combine the two facilities.**

The ALH decidedly has profound physical plant structural problems. However, due to its size (175 beds), it would most likely be the easiest of the two Homes to market. The transfer in ownership of certified nursing home beds requires a Certificate of Need application and approval. It would be reasonable to assume that major renovations or the construction of a new plant would be required by this process.

Benefit: While the above reasons outline efficiency and patient quality of life issues which would be used to justify to the State the need for replacement, financial and reduced overhead benefits also exist. If the 175 beds at ALH were rebuilt and combined with the existing ACNH, the following would occur:

- One department head could run each Department, similar to the current operation of the Financial, Personnel, Grounds and Laundry Departments.
- While the need for "hands on" and production staff would probably remain unchanged, management level positions may be reduced. For instance, each Home has a licensed Administrator, Director of Nursing, Director of Social Services, and Director of Activities.

In the case of the construction of a new plant, several opportunities for use in the health care industry and others are available for the historic ALH plant. In health care, considerations may include: a diagnostic and treatment center, rehabilitation services, or a day care center. Other opportunities may include County office space, a children's day care center, or enriched housing for the elderly.

Fiscal Impact: As one facility, the reimbursement rate at the combined Albany County Nursing Home (595 beds) would be increased. The current Medicaid system allows for an enhanced rate for homes over 300 beds. Therefore, ACNH benefits from the regulation while ALH does not. By becoming one entity the Medicaid revenue to the County or any owner would increase by $250,000. The possible increase in revenue resulting from combining the ACNH and the ALH operating certificates/physical plants is outlined in the Fiscal Summary Table below.

Fiscal Summary Table

Year 1	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Total Savings*
$250,000	$250,000	$250,000	$250,000	$250,000	$1,250,000*

*Reimbursement regulations are subject to budgetary changes.

Construction costs for nursing homes are approximately $100,000 per bed. Therefore, the replacement of 175 beds would be $17,500,000. The Medicaid rate would include the capital debt interest and depreciation on the asset. The County contributes 10% of the Medicaid rate. Over a 30-year life, the County would annually contribute approximately $58,000 for the building and $140,000 for interest (assumes 8% rate) for a total of $198,000.

Further cash flow is gained if the amortization on the bonds is less than the annual depreciation reimbursement. For example, if the first year's bond amortization payments are $100,000, the Medicaid rate would include $580,000 in depreciation (average life of 30 years) for a cash gain of $480,000. This differential would reverse in the second half of the bond life. However, through the use of annuity sinking funds, it may be possible to fund for the future loss and still have a cash surplus. The actual surplus can not be estimated at this time.

Upon completion of the 175 beds, the old facility could be used for other health care or non-health care needs. For instance in the health care arena, related nursing home services which could be added include: (1) adult day care services, (2) long-term home health care, and (3) rehabilitation services, as mentioned earlier in this report.

If the beds are privatized the annual subsidy for the Home would be eliminated. The average cash subsidy has been $500,000. In addition, there may be the ability to eliminate some County support services.

Implementation Issues: Identical as previously expressed for ACNH.

Finding: **The Homes do not have a strategic business plan in place to help guide their programs and financial vision.**

The health care industry, including the Albany area, is moving towards an integrated delivery system (IDS). An IDS attempts to keep people within its system for all aspects of health care. Organizations are attempting to merge or become affiliated with all aspects of the health system. The continuum of care related to long-term care includes a subset of the overall health and housing industry.

Residential Care	Housing	Community Services
Subacute Care	Adult Home	Certified Home Health Care
Nursing Home	Enriched Housing	Long-term Home Care
Respite Care	Senior Apartments	Meals-on-Wheels
Hospice		

Recommendation: **Develop three-year strategic plans that include program and financial goals.**

By expanding horizontally (residential care) and/or vertically (housing and community services), all access points of the "customer" are within a system. This is becoming a valued strategy due to the movement towards "capitated" rate structures. Under capitation, a health network receives a set payment for each person in the program. Therefore, the traditional fee-for-service payment method is eliminated. The incentive is for the services to be provided in the least costly manner and at the most appropriate level. Networks require access to all levels of care.

The financial pressures on health care have caused the skill level required to care for a nursing home resident to increase dramatically. Indeed, services historically provided at hospitals are now typical nursing home services.

These external and internal trends should be evaluated and used to develop a comprehensive strategic plan. The plan should go beyond the mission statement and identify specific goals that define what the facility will become financially and operationally by a specified date.

Benefit: Progressive health providers develop detailed strategic plans that become the focal point for top management. With such a plan, each year's annual budget is proactive, not a reactive process without any direction or evaluation qualities.

Fiscal Impact: Albany County's fiscal situation would not be immediately impacted by following this recommendation. This is a proactive approach to effectiveness, efficiency, and the identification of new opportunities and options.

Implementation Issues: Implementation of this recommendation requires the formation of a "new directions" committee. The committee would be comprised of a delegate from each department within the two Homes. Leadership should be provided by Administration.

Assignments to delegates include attendance at seminars, establishment of peer group contact, and research. Contemporary movement within the health care community will be monitored and strategic short- and long-term goals can be: (1) identified, (2) planned, and (3) implemented.

Finding: **County interdepartmental coordination to facilitate the admission process is not being utilized.**

The County Office of the Aging helps direct citizens into area nursing homes. The County nursing homes have admission departments; however, these separate departments should work together in the admissions process.

Recommendation: **Increase the coordination between the Office of the Aging and the nursing homes.**

The County Office for the Aging and the Department of Social Services have the propensity to provide valuable services to the two Homes. Both departments work directly with those populations for whom the Homes provide service. Working as a liaison, information can be exchanged that would enable the Homes to increase their case mix index (CMI). The CMI score directly affects the amount of Medicaid reimbursement received.

Benefit: Services to the County residents would be enhanced by closer coordination. The Homes may be in a position where Medicaid recertifications, generally done by the Department of Social Services, may be completed within the facility.

Fiscal Impact: Increases to the CMI signal to the DOH an increase in the skill level required to provide quality nursing care to current residents. While future CMI increases resulting from this relationship are difficult to determine, we can provide some insight through the following "rule of thumb":

- A case mix fluctuation of one point (1.14 to 1.15) would result in a $0.50 increase to the facility per diem rate.

Example: Using 1994 patient days:

Albany County Nursing Home	151,875 days x $0.50 =	$75,938
Ann Lee Home	63,233 days x $0.50 =	$31,612

Fiscal Summary Table

*Increase**	*Year 1*	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Total Savings*
1 Point	$107,550	$107,550	$107,550	$107,550	$107,550	**$ 537,750****
2 Points	$215,100	$215,100	$215,100	$215,100	$215,100	**$1,075,500****

* Both facilities.
** Reimbursement methodologies subject to regulatory change.

Implementation Issues: Implementation will require the Homes' Social Services Department, Admissions and Finance Departments to work conjointly with the County Office of the Aging and the Department of Social Services to facilitate identification of areas of support that may be provided interdepartmentally. Management has recently improved this relationship. The CMI score is now at 1.21 and .86 at the County Nursing Home and Ann Lee Home, respectively.

Finding: **The County's rich fringe and time off benefit policies account for much of the County's need to subsidize the nursing home operations.**

Expenditures related to the collective bargaining agreement for fringe benefits and overtime paid due to the coverage needed from the time off policy are not fully reimbursed by third-party payers. The statewide costs are compared to each individual home. Due to the high cost in this area, the costs are over the allowable total costs for direct and indirect care expenses. These unreimbursed costs account

for much of the County's subsidy and represent the significant difference between the Homes' additional expenses and those of the area's not-for-profits.

This situation is shared by all of the 53 county nursing homes in New York State. Previous times saw a lower salary for public employees, which was made up for through an aggressive fringe benefit packages offered. As the benchmarking study shows in Exhibit 5.31, salaries on average are now in-line with other county homes and not-for-profit homes. The State's reimbursement system (88% of patient days) averages all homes to arrive at ceiling amounts. This process does not segregate the added cost incurred by county homes.

Exhibit 5.31
Fringe Benefit Percentage Benchmark

1994	ACNH	ALH	Total	Average
Fringes as a percentage of salaries	37%	34%		
Additional expense over County average	$845,954	$170,444	$1,016,398	30%
Additional expense over non-profit average	$1,812,757	$511,331	$2,324,088	22%
Additional expense over for-profit average	$1,812,751	$511,331	$2,324,088	22%

Finding: the worker's compensation expense per employee is significantly over the area average for a combined $571,000 and over 2,500 coverage days or 10 employees.

Source: Area nursing home cost report survey

The percentage of paid time off at the Homes is substantially higher than the not-for-profit sector. Based on an analysis of the County nursing Homes' records, 15% of the average worker's time is for hours not worked. This percentage equates to 39 days as compared to 26 days for the not-for-profit comparison homes. The additional 13 days leads to overtime in departments that have mandated staffing requirements.

Recommendation: **Consider establishing a separate benefit package for County nursing home employees.**

By separating the contract, issues related to the Homes can be addressed apart from the overall County contract.

Benefit: The level of benefits would be comparable to the not-for-profit industry.

Fiscal Impact: As shown in Exhibit 5.31, total additional expense over the not-for-profit average for both facilities was $2,324,088 for 1994. The maximum savings possibly realized by successfully negotiating a benefit to salary percentage that is in line with the mean for not-for-profit facilities is outlined in the Fiscal Summary Table below.

Fiscal Summary Table

Year 1	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Total Savings*
$2,324,088	$2,324,088	$2,324,088	$2,324,088	$2,324,088	$11,620,440

Implementation Issues: Carefully planned negotiations with unions at contract time would be required. In the event operating certificates are transferred to a non-public entity, the movement would allow for the restructuring of the entire benefit package, whether it is not-for-profit, proprietary, union or nonunion. This will allow the equalization of benefits to industry standards.

Finding: **Medical Services expenses are higher than benchmarking cost guidelines.**

Currently, the combined facilities have medical staff costs of $203,000, while the gross Medicare billings for these services netted $306,000, for a gain of $103,000.

The administrative functions of the medical staff are included in a separate cost center called the Medical Director Department. The total cost of these services is approximately $162,000.

The total costs for Medical Services is $365,000 per year, offset by $306,000 in revenue, and a loss of $59,000.

Recommendation: Consider outsourcing medical services as a means of limiting costs.

Many Homes do not pay for medical services. The doctors are allowed to bill for their services directly to the Medicare program. Administration approves and coordinates the coverage requirements. Another option is for the contracting of the service to a physician or a physician practice.

Benefit: The Administration of the Homes presently lacks methodology or resources with which to determine productivity. One cannot effectively contain costs when the relative value unit (hours) data is not available.

Fiscal Impact: It is difficult to project, due to lack of foundation data. However, it is reasonable to foresee reaching the break-even point.

Implementation Issues: Following are the implementation steps:

- Medical staff will be advised to sign in and out on a physician log whenever in one of the facilities.
- The Medical Director will provide scheduling for on-call physicians one month in advance to the Administrator or his/her designee.
- Compensation will be calculated by determining an hourly rate for each physician and compensating for time spent in the facility.
- In the Business (Billing) Office, a physician services log should be maintained. Information maintained in this log includes:
  - Batch number
  - Batch date
  - Number of services
  - Revenue
  - Contractual allowance
  - Accounts receivable

Following a sufficient period of time—six months to one year—payroll data and Medicare Part B services should be analyzed to provide a firm basis for cost containment in this area.

Finding: **The Homes' direct nursing staff and nursing administrative costs are higher than those of their peers and exceed the State's reimbursement guidelines.**

Nursing salary expense is the largest expenditure item in all nursing homes. The ACNH has 31% of total costs in "hands on" care (registered nurses, licensed practical nurses, aides and ward clerks) while ALH has 24%. To achieve a sound financial position, this area must be effectively controlled without compromising the needs of the residents.

The nursing labor inefficiencies can be associated with fringe benefits and time off coverage requirements. Even with these disadvantages, the ALH was still within benchmarking guidelines among its peer county homes. ACNH, however, is over significantly ($970,000).

Of the $970,000 overage at ACNH's nursing department, $465,000 is related to the high fringe benefit to salary percentage. In addition, there is a budgeted $338,000 in overtime for minimum coverage requirements.

The nursing administration department at ACNH shows costs for 1994 significantly over its specific peer group comparison. ACNH costs for nursing administration exceeds the per day cost average by $328,000. This amount was found to be totally related to Salaries and Benefits.

Recommendation: **Reallocate direct care nursing resources and reduce nursing administration staff to bring the staffing levels into industry norms.**

New administration within the Nursing Department (last quarter of 1995) has started implementing changes in many areas. Among these are the reevaluation of the present Nursing Administration and Direct Care staffing. It is felt that many of the tasks presently being performed by Registered Professional Nurses may, in fact, be performed by Licensed Practical Nurses or perhaps the Unit Clerks in some instances. It is further felt that the elimination of many Specialty Positions could be a catalyst to improved quality of care. Provision of a holistic (body and mind) perception of each resident would result from the involvement of the Head Nurse in the total care of the residents. Coordination of Nursing Staff between the two Homes is expected. Centralization of this responsibility would increase the effectiveness of the operation and provide a valuable tool for downsizing the use of overtime staffing.

Benefit: The State measures the acuity ("sickness") level of each patient and arrives at an overall average score for each Home. This score or case mix index (CMI) is used to adjust the largest portion of the Medicaid rate (the direct component). Therefore, the higher the score the greater the reimbursement. Built into this score are statewide benchmarking standards for the amount of "hands on" nursing care required for the overall patient profile.

The document employed to assemble pertinent information for CMI scoring is the Patient Review Instrument (PRI). The completion of these forms during the facilities' four assessment periods requires identification and proper classification of the skill level required for each resident.

The statewide average CMI is 1.14. The ACNH score is 1.15, while the ALH is 0.83. These scores by themselves do not reflect a good or bad position. They do, however, indicate the level of reimbursement to be received and the level of nursing care the State is allowing.

The hours of patient care implied in the Medicaid rate standards versus the actual hours worked for each Home is shown in Exhibit 5.32. A positive difference represents a labor efficiency.

Exhibit 5.32
Hours of Nursing Care Standards

Albany County Nursing Home	RN, LPN & Aides
"Hands-on" hours paid by State	3.31
Actual hours worked	3.15
Difference	0.16
Ann Lee Home	
"Hands-on" hours paid by State	2.25
Actual hours worked	2.27
Difference	(0.02)

Source: Medicaid rate sheet and cost reports

Both facilities in Exhibit 5.32 show that their Direct Care Nursing staffing levels are in line with standards required for the present CMI. Exhibit 5.32, "Hours of Nursing Care Standards," demonstrates hours of hands-on care required by the State in its standards. Both ALH and ACNH are in line with these standards. The realignment of Nursing and Nursing Administration staffing will not degrade the quality of skilled services provided—it will serve to make it more efficient.

Fiscal Impact: It is expected that this approach will allow a decrease for 1996 staff (Administrative and Direct) of 10 FTEs. Together with the 1995 decrease of 10 FTEs in RN and LPN positions, an approximate decrease in costs of $520,000 in salary alone would result at ACNH. The projected savings related to the decrease in administrative and professional personnel (20 FTEs) are outlined in the Fiscal Summary Table below.

Fiscal Summary Table

Year 1	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Total Savings*
$520,000	$520,000	$520,000	$520,000	$520,000	$2,600,000

Implementation Issues: Management has begun the reallocation and staff reduction recommendations.

Finding: **Seven departments at ACNH and four at ALH were found to be over the cost benchmarking.**

The seven departments listed for ACNH in Exhibit 5.33 represent 90% of the total cost benchmarking average and are 66% of the total operating budget.

The four departments listed at ALH account for 28% of the operating budget and are over by a combined $712,000.

Exhibit 5.33
County Benchmarking Cost Guidelines

The following departments were significantly over the benchmarking cost comparison.

Albany County Nursing Home	Ann Lee Home
1. Fiscal	1. Administration
2. Plant Operations	2. Security
3. Laundry	3. Plant Operations
4. Nursing Administration	4. Nursing Administration
5. Security	
6. Central Supply	
7. Nursing	

Source: KPMG Cost Benchmarking

The following three areas present problems indigenous to publicly-owned homes and, as such, it is likely that change in ownership of the operating certificate may be the only avenue with which to effect change.

- Fiscal (ACNH $134,000). The overage is totally related to the purchased services accounts. These accounts include the County-allocated overhead.

- Administration (ALH $118,000). The overage is related to salary and fringes.

- Central Service Supply (ACNH $300,000). The supplies ordered through the central supply department are $300,000 over the County cost average.

Recommendation: Undertake an investigation and actions for the departments over the cost benchmarking averages.

- Security (ACNH $127,000; ALH $111,000). Savings for the Security Department could be achieved through outsourcing or the reduction of coverage. The Security Department for both Homes was significantly above the peer group average. Facility staff pointed out circumstances that warranted the high security need, especially at ALH, which houses ambulatory residents with Alzheimer's.

  We would suggest that time studies be completed for the security department by day and by shift. A comparison of job description to job action would provide information as to how to reduce the cost in this area while continuing to retain the safety of the residents.

- Nursing and Nursing Administration (Nursing: ACNH $980,000; Nursing Administration : ACNH $328,000; ALH $125,000). These departments are discussed on page 5.97.

- Plant Operations and Grounds (ACNH $132,000; ALH $358,000). At ALH $146,000 of the overage is related to the utilities expense. The aged boiler at this Home creates high utility costs and additional staffing requirements.

  We understand that the boiler renovation has passed the planning stage and will soon be initiated.

- Laundry (ACNH $139,000). The Laundry Department is centralized for the Homes and the jail. The overage is related to staffing. To accommodate the needs of the jail, additional staff is required. Also, the transportation and pick up requirement due to the off-site location is an additional staffing expense.

The County jail may well be able to transport their dirty linen to, and clean linen from, the laundry plant. It appears that the Homes are adequately compensated for additional supplies. Here also the County benefit package drives the salaries up comparatively.

Finding: **The design and analysis provided by the County's Computer Services Division (CSD) are inadequate for nursing home-specific needs.**

The fiscal health of participants in the skilled nursing industry depends on the quality, timelines, and integrity of its management information system (MIS). The function of MIS for the Homes is performed by the centralized CSD.

The health care industry is constantly receiving regulatory changes imposed by federal and state overseers. In addition, changes to the operation of nursing homes for resident needs or to become more efficient are occurring in the industry, requiring MIS systems to be flexible and comprehensive. The County's current reporting and analysis support required for sound fiscal management and the coordination of resident care appears to have many shortfalls including the following:

- Individual general ledger system is not accessible
- Budget variance reports are rare
- The resident profile entry screen(s) allow only two fields for Diagnosis Coding (ICD-9). (Note: Reimbursement from Medicare is presently diagnosis driven. A patient may require four or more codes for reimbursement.)

Other Departmental shortcomings in the technology field include the following:

- The Personnel Department does not presently make use of computer services.
- Purchasing/procurement (Central Service) presently requires the following steps:
  - Inventory check for needed supplies/materials is handwritten;
  - Requisition is then typed;
  - Requisition is input into present County system;
  - Requisition is forwarded to Purchasing; and

  - Data is input into department-specific software via smart computer to address inventory, terms of sale, and receiving of goods.

- No fields are available on the present system to signal terms of purchase; the Homes are not able to take advantage of early payment opportunities (discounts)—the 1994 estimated opportunity is $52,000.

- Dietary menu changes take 10 to 15 minutes to enter into the computerized menu system. This time constraint causes staff to postpone updating the resident menus. Because of the residents frequent changes in requirements, many high priced nutritional supplements and substitutes continue to be disbursed to the resident at meal time only to be discarded.

- At present, no CSD employee has had experience in the day-to-day operations of a skilled nursing facility.

- Individualized software and hardware have been purchased in the following departments because of the present system's inappropriateness:

  - Pharmacy

  - Nursing

  - Purchasing

Recommendation: Purchase a software package that combines the medical and financial needs of the Homes.

In today's technology marketplace there is software specific to the nursing home industry that would provide the flexibility and variability required for efficient management of the Homes. Such software would cost approximately $40,000 per Home.

Benefit: Advantages of such software are as follows:

- One-time cost, since, as a rule, costs of updates reflecting current changes in industry regulations are included in the purchase price;

- The ability to query and create individualized reports from any input field in any combination;

- The ability to share interdepartmental information (limited only by security clearing codes); and

- Systems functions include but are not limited to:
  - General ledger;
  - Budgeting (ability to run weekly, monthly reports); and
  - Variance reports by department.

Fiscal Impact: Projecting fiscal impact before a software package is selected by the County cannot be measured. We can only speculate that the Homes' computer service costs from the County would be significantly decreased.

Fiscal Summary Table

	Year 1	*Year 2*	*Year 3*	*Year 4*	*Year 5*	*Cumulative Amounts*
Software	$16,000	$16,000	$16,000	$16,000	$16,000	$80,000
Maintenance	$7,000	$7,000	$7,000	$7,000	$7,000	$35,000
Coordinator	$37,800	$38,974	$40,102	$41,305	$42,544	$200,685
Cost	**$60,800**	**$61,934**	**$63,102**	**$64,305**	**$65,544**	**$315,685**
Current System	$112,707	$112,707	$112,707	$112,707	$112,707	$563,535
New System	$60,800	$61,934	$63,102	$64,305	$65,544	$315,685
Net Savings	**$51,907**	**$50,773**	**$49,605**	**$48,402**	**$41,163**	**$247,850**

Implementation Issues: The major nursing home software vendors should be invited to bid on the accounting and patient care systems. An evaluation of the hardware requirements would also be required. However, it is likely that the current County system will support the software.

Finding: **Manual time cards lead to inefficient processing of payroll.**

Time cards are manually checked by department heads and totaled by two employees in the finance office. The cards must pass through many hands and be qualified as to type of time and validity.

Recommendation: **Consider computerizing time cards to increase efficiency.**

Management could request proposals from automated payroll vendors for the installation of the hardware and software, therefore, eliminating the burdensome manual system.

Benefit: An automated system could reduce the time needed by department heads and eliminate the footing functions performed by Finance.

Fiscal Impact: Potential elimination or reassignment of payroll staff could be realized with a computerized system. The purchase of the equipment would be a one-time expense.

Implementation Issues: Payroll vending companies will provide information and contract bids for the use of automated time clocks.

Finding: **The lack of timely accounting data prohibits department heads from managing their budgets properly.**

The current accounting system does not allow for accurate monthly budget reports.

Recommendation: **Distribute monthly actual expenses to budgeted expenses to department heads.**

Department Supervisors will be responsible for the variances in their approved budgets. Any variances should be addressed during the current period.

Benefit: To improve fiscal management of the Homes, department Supervisors should be involved in monthly budget variance reports.

Fiscal Impact: The software and hardware requirements for a system would be a one-time expense. The Nursing Home and County management would have current data throughout the year, which will allow for better fiscal control.

Implementation Issues: Evaluation of the current information system and the needs for improving or replacing the system would be required.

Finding: **Excessive paperwork is created by the lack of access to the computer system's employee profiles.**

All employee changes, including phone numbers and addresses, as well as new hire additions, must be approved by the Executive Director before the paperwork can be forwarded downtown for processing. This leads to duplication of effort by the Homes' Personnel Department, Administration, and Human Resources.

Recommendation: **Authorize access to non-crucial data input for selected personnel.**

Selected personnel should have the ability to update personnel information. Changes to the system can be verified by a separate party to ensure accuracy within the Homes.

Benefit: Either the department supervisors preparing and approving changes or the CSD staff inputting the data could be eliminated.

Fiscal Impact: Duplication of effort may lead to reduced staffing needs and allow the Executive Director to spend time in more appropriate areas.

Implementation Issues: Implementation of this recommendation would involve a review of the current procedures followed by a reorganized process and computer access ability.

Finding: **The County Buildings Department currently provides fire safety inspections for the Homes.**

A member of the Buildings Department dedicates one day a week to fire safety inspections at the Homes. The inspections include checking fire extinguishers, fire safety training, conducting fire drills, and inspections.

Recommendation: **Facility staff should perform the majority of the services.**

In 1994, the Homes paid $4,865 for fire inspections and in 1995, $5,599. The present contract places a cap at $10,000 for these services.

Benefit: In this respect, "fire safety" is a broad term which includes:

- Safety in-services/training of all personnel
- Inspection and testing of all fire equipment including all extinguishers

- Safety inspections of both facilities
- Evacuation drills for disaster readiness

We would suggest retention of this level of service due to:

- The age, characteristics, and physical composition of the plants and the frail condition of the residents housed there.

Fiscal Impact: Depending on the reduction of allocated services a savings between $5,000 and $10,000 per year would be realized.

Implementation Issues: A review of all services provided and the ability to use the current staff should be undertaken. Based on the results, a reduction in contracted services may be implemented.

Finding: **Incorrect disclosure of County-allocated expenses effects the property expense reimbursement from Medicaid.**

The County-allocated expenses include capital expenses as defined by Medicaid. These expenses relate to property depreciation, capital debt interest expense and property insurance. If these expenses are separately identified on the annual cost report they will be fully reimbursable through the Medicaid capital component. Based on discussions with the Homes' accounting office, the total annual amount is $5,500. This amount appears low compared to the amount of overhead allocations currently expensed.

Recommendation: **Perform a review of the allocation method and the reporting of capital costs on the Medicaid cost report.**

By properly capturing capital costs (depreciation, interest expense, and property insurance) attributable to the Homes a more accurate reflection of expenses will be achieved.

Benefit: The Medicaid daily rate for 1997 and forward would increase.

Fiscal Impact: The fiscal impact cannot be judged without further information into the allocation stepdown.

Implementation Issues: The County is currently updating its step-down allocation method. This review should attempt to verify that the capital costs are properly captured and reported on the Homes' financial statements.

When completing the resident health care facility cost report (RHCF) for 1995, which affects the 1997 Medicaid rate, County-allocated costs should be distinguished. The capital portion of the Home's Medicaid rate is paid dollar for dollar.

Prior years are technically time-barred from appeal. However, we suggest still filing for these years. If the Department of Social Services conducts a property per diem audit, these prior year expenses will be eligible for appeal.

Finding: **The charge for procurement of supplies appears excessive.**

Each requisition for materials that is processed by the Homes' Purchasing Department includes a $35 charge. This charge appears excessive and the paperwork it requires causes nursing home personnel to duplicate the efforts of the Purchasing Department.

Currently, an informal policy for supplies purchases is in place. Head nurses are ordering supplies "as needed."

Recommendation: **Eliminate the duplications of efforts between the Nursing Administration and Purchasing Departments**

The new administration has revised policy to necessitate all requisitions be initialed by the Director of Nursing before acted upon. This change, along with active supervision by each department head, will aid in decreasing costs of this kind.

Benefit: Direct and indirect costs of providing skilled nursing in the residential setting would decrease. Monitoring of each request for purchase by the department director will reveal any areas of waste and distribute responsibility for efficiency to each department head.

Fiscal Impact: Better control of supply ordering should lower ordering charges and inventory.

Implementation Issues: New policy and procedures must be put into place that standardize this activity for all departments. Par levels must formally be identified and be utilized as the basis for all purchases of supplies.

Administration must hand down a directive requiring:

- A new facility(s)-wide policy and procedure be created for purchase of supplies.