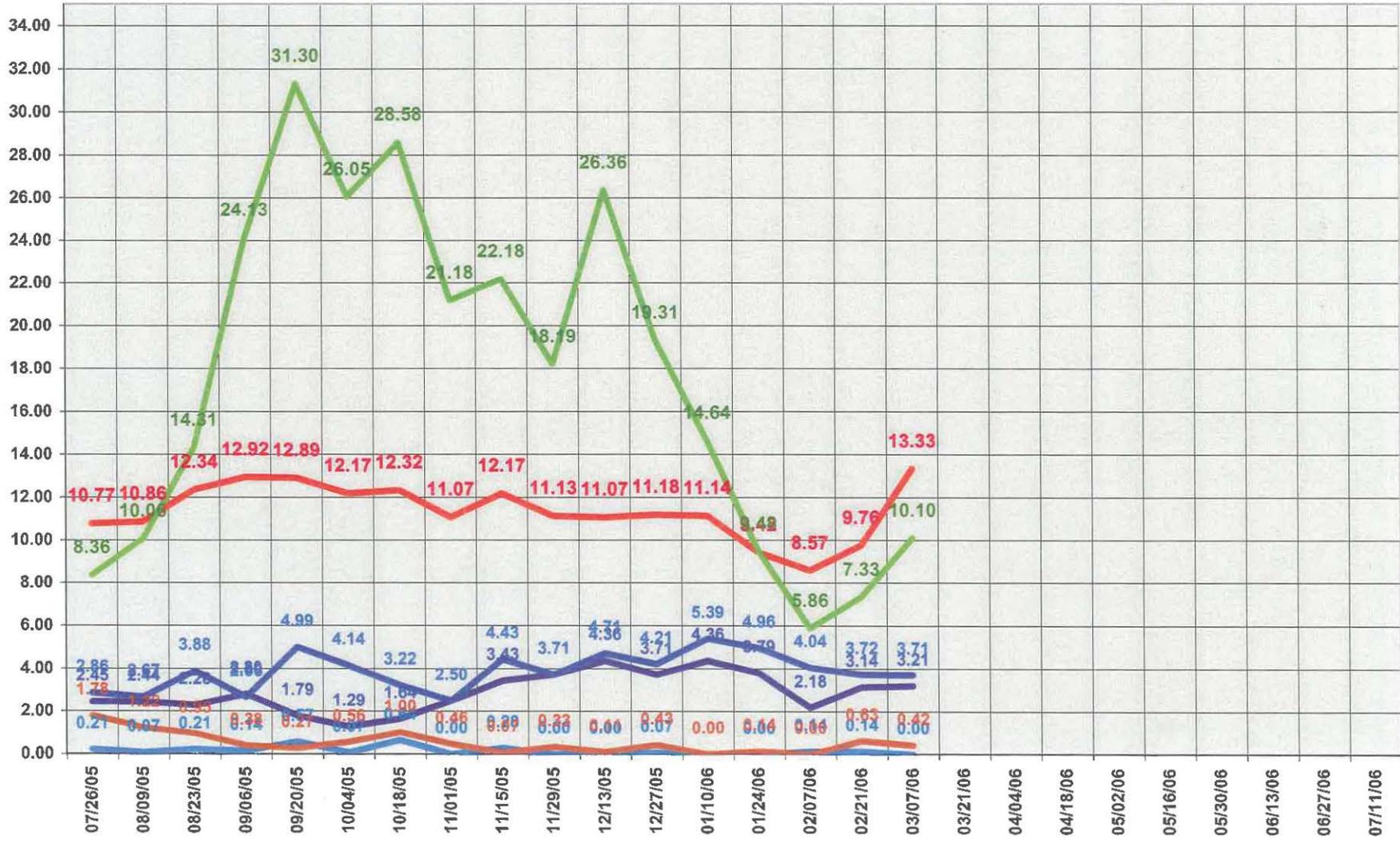


NCU SHN (Supplemental Hours of Nursing) FY 2006

— INTER
 — VOL XTRA
 — ASSGN XTRA
 — VOL OT
 — ASSGN OT
 — AGENCY



MINNESOTA VETERANS HOME - MPLS
NURSING ACTIVITY REPORT

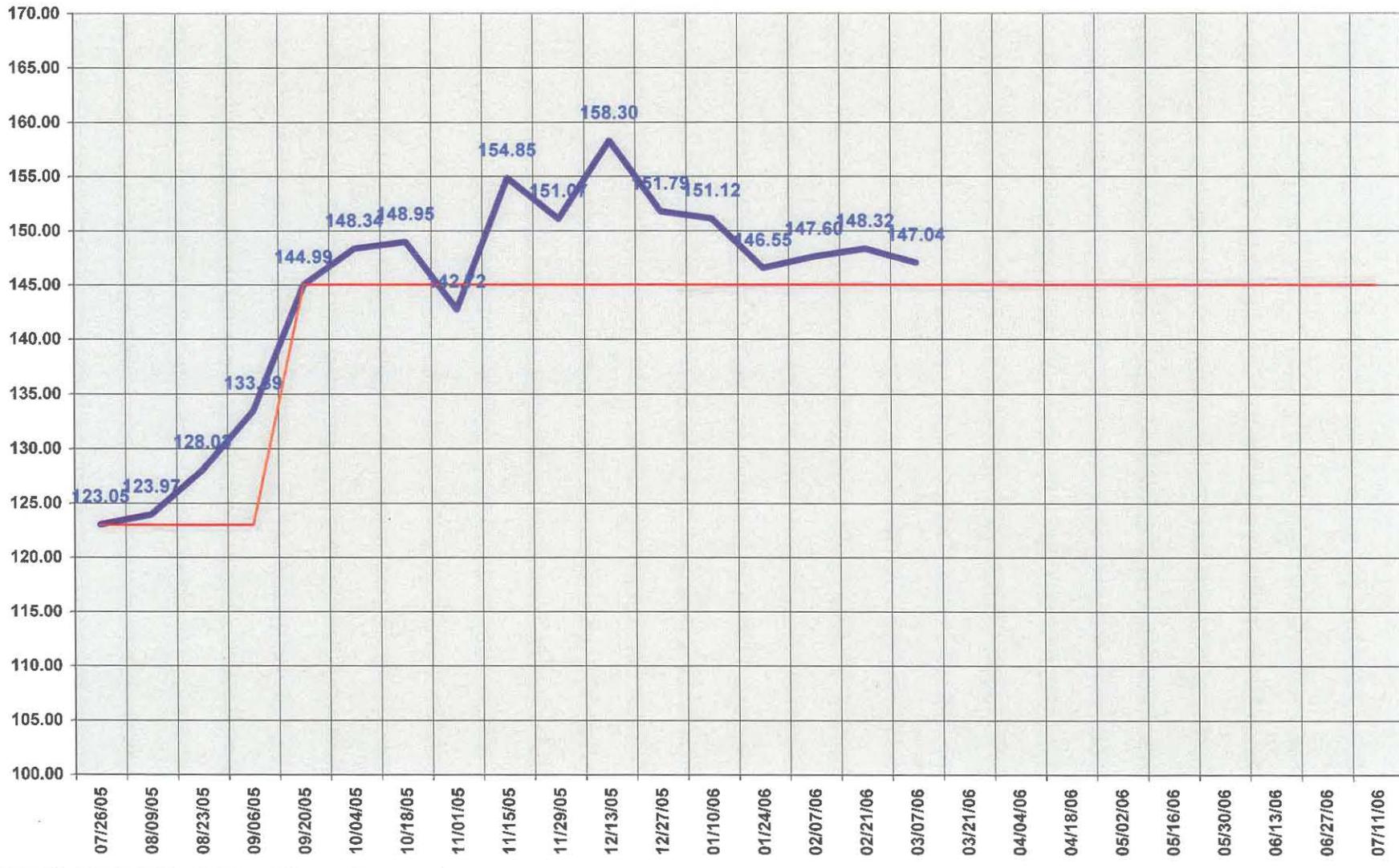
PAY PERIOD 03/07/06

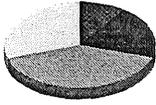
SUPPLEMENTAL HOURS			%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%			
			2N	2S	3N	3S	4N	B17	61	62	63	B6	NCU	B9	MVH											
xSHIFTS	RN	Vol	0.00	0%	0.07	0%	0.00	0%	0.00	0%	0.00	0%	0.07	0%	0.07	0%	0.00	0%	0.14	0%	0.21	0%	0.10	0.31		
		Assign	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0.00		
	LPN	Vol	0.00	0%	0.00	0%	0.00	0%	0.29	0%	0.07	0%	0.14	0%	0.21	0%	0.50	0%	0.21	0%	0.50	0%	0.00	0.50		
		Assign	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0.00		
	TMA/PA HST	Vol	0.43	0%	0.29	0%	0.07	0%	0.21	0%	0.71	0%	1.71	1%	0.43	0%	0.57	0%	0.29	0%	1.29	1%	3.00	2%	0.00	3.00
		Assign	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0.00	0.00	
TOTAL			0.43	0%	0.36	0%	0.07	0%	0.21	0%	1.00	1%	2.07	1%	0.57	0%	0.64	0%	0.43	0%	1.64	1%	3.71	3%	0.10	3.81
INTER			0.29	0%	0.14	0%	0.14	0%	0.21	0%	0.93	1%	1.71	1%	0.50	0%	0.64	0%	0.36	0%	1.50	1%	3.21	2%	0.07	3.29
OT	RN	Vol	0.14	0%	0.07	0%	0.86	1%	0.29	0%	0.14	0%	1.50	1%	0.07	0%	0.07	0%	0.00	0%	0.14	0%	1.64	1%	0.13	1.77
		Assign	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.14	0%	0.00	0%	0.00	0%	0.14	0%	0.14	0%	0.04	0.19
	LPN	Vol	0.14	0%	0.00	0%	0.29	0%	0.21	0%	0.33	0%	0.97	1%	0.07	0%	0.00	0%	0.28	0%	0.35	0%	1.32	1%	0.00	1.32
		Assign	0.00	0%	0.07	0%	0.00	0%	0.00	0%	0.00	0%	0.07	0%	0.00	0%	0.00	0%	0.14	0%	0.14	0%	0.21	0%	0.07	0.29
	TMA/PA HST	Vol	0.93	1%	1.50	1%	1.86	1%	1.36	1%	1.18	1%	6.82	5%	1.29	1%	1.96	1%	0.29	0%	3.54	2%	10.36	7%	0.14	10.50
		Assign	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.00	0%	0.07	0%	0.00	0%	0.07	0%	0.07	0%	0.00	0.07
TOTAL			1.21	1%	1.64	1%	3.00	2%	1.86	1%	1.65	1%	9.36	6%	1.57	1%	2.11	1%	0.71	0%	4.39	3%	13.75	9%	0.39	14.14
AGENCY	RN		0.36	0%	0.00	0%	0.14	0%	0.07	0%	0.07	0%	0.64	0%	0.00	0%	0.00	0%	0.07	0%	0.07	0%	0.71	0%	0.00	0.71
	LPN		1.36	1%	1.14	1%	0.77	1%	0.57	0%	0.81	1%	4.65	3%	0.29	0%	0.29	0%	0.43	0%	1.00	1%	5.65	4%	0.21	5.86
	HST		0.40	0%	0.19	0%	0.57	0%	0.57	0%	0.71	0%	2.45	2%	0.21	0%	0.43	0%	0.64	0%	1.29	1%	3.74	3%	0.04	3.77
	TOTAL			2.11	1%	1.34	1%	1.48	1%	1.21	1%	1.60	1%	7.74	5%	0.50	0%	0.71	0%	1.14	1%	2.36	2%	10.10	7%	0.25

GR TOTAL 4.04 3% 3.48 2% 4.70 3% 3.50 2% 5.18 4% 20.89 14% 3.14 2% 4.11 3% 2.64 2% 9.89 7% 30.78 21% 0.81 31.59

80.00 RN 1.06
656.80 LPN 3.21
422.40 HST 5.28
1159.20 TOTAL AGENCY 14.49

NCU STAFF SHIFT per DAY FY 2006





Minnesota Veterans Home's Board



Where have we been.....

Where are we now.....

Where are we going.....



1

Where have we been.....Triggering events

- July 23rd –Department of Health Survey where 29 citations were issued.
- Replacement of key management staff on August 30th
- Immediate plans of correction implemented in response to survey citations.
- Governor's request for a System-wide review on September 20th 2005
- Joint Senate Hearing

2



Triggering events....

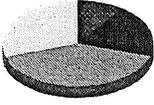
- RFP issued for study “for a comprehensive review of the quality of care at all Minnesota Veterans Homes. ...and include “patient care, staffing, finance, governance, quality assurance, and other issues identified by the Board”.
- Early December, Department of Health return survey identified all previous citations issues at the Minneapolis campus corrected.

3

System Wide Study - HDI

- Health Dimensions Group (HDI) was chosen for the system-wide survey and will summarize their process and critical findings
 - Sergei Shvetzoff, Principal, Health Dimension Group

4



Objectives of the HDI Study...

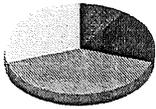
- Quality Program Review
- Evaluate the organizational issues at the Board Office and at each home
- Assess and evaluate the skills and expertise of the Veterans Homes Board Staff
- Assess the effectiveness of the Veterans Homes Board of Directors
- Conduct an Organizational/Financial Assessment of each Veterans Home
- Perform a Financial Management Review

5

Key HDI Findings - Minnesota Veterans Homes

- A clear strength of the five Minnesota Veterans Homes is a deep commitment to the mission and vision of the Homes by employees.
- Overall, the quality of care and the level of services provided to Veterans and their dependents are very high.
- The MVH-Minneapolis has taken significant action relative to developing and implementing quality initiatives over the past six months.
- Staffing levels in the various MVH sites are well within expected levels for nursing facilities and domiciliary care facilities unless otherwise noted within the report.

6



Minnesota Veterans Homes HDI - continued

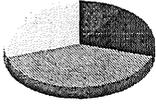
- Additional direct care staff is recommended at MVH-Hastings and MVH-Luverne.
- Clinical staffing shortages at MVH-Minneapolis have been resolved which has resulted in direct staffing levels appropriate to meeting the needs of residents.
- We found MVH-Fergus Falls to be among the best nursing homes we have reviewed in Minnesota and MVH-Luverne is also a very strong performer.
- Chronic employee performance problems have been tolerated.

7

Minnesota Veterans Homes HDI - continued

- Role confusion is occurring between the Facility Administrators and Board Office Staff.
- The Facility Administrators outside of the Minneapolis location feel they are required to implement solutions that are suitable for the complexity of the Minneapolis facility and not appropriately scalable to their needs.
- In our survey findings there is a lack of alignment between employees and management as it relates to management modeling, building teams, coaching, empowerment, employee feedback and informal communication.

8



Critical Recommendations - HDI

1. Create an 18-month turnaround plan for Minneapolis.
2. Recruit a top quality Minneapolis Management team ASAP (but carefully).
3. Use external experts for Mock Surveys.
4. Implement changes to Minneapolis structure into smaller distinct operating units.
5. Operate the Board of Directors as a governing Board - not an advisory one

9

Critical Recommendations HDI - continued

6. Clarify roles and functions between Board Office Staff and Facility Administrators.
7. Establish a shared strategic agenda and priorities at the Board Level. Delegate creating an implementation plan for the MVH organization.
8. More effectively utilize Board committees and possibly recruit ex-officio members.
9. Establish and monitor select key performance metrics that support strategic direction of the Minnesota Veterans Homes.

10



Recommendations - MVHs Overall

- Staff Union Salaries – We recommend staff salaries in future union contracts be regionalized based on a cost of living index.
- We recommend that MVH Board Staff, through its Human Resource function, be proactive in educating facility managers on performance management processes.
- Staff Training – We recommend the Minnesota Veterans Homes Board Staff assign regional training responsibilities to facility staff.

11

Recommendations - MVHs Overall

- Public Affairs/Development Plan – We recommend that each facility develop an annual public affairs/development plan utilizing the Public Affairs and Legislative Director of the MVH Board Staff to coordinate the public affairs/development plan development and implementation.
- Department Head Meetings – We recommend that facility Department Heads from each discipline meet at least annually as a group to learn how to better share resources, learn of new methods/procedures and discuss new ideas for operation.

12



Where are we now.....

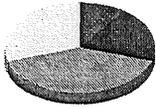
- Health Dimension (HDI) Report is complete and submitted to Governor.
- HDI Report includes a number of recommendations – action plans specific to the Board, Board staff and facilities. These recommendations are meant to be “*directional and not judgemental.*”
- Action plans have been developed, refined and implemented in response to most critical recommendations.

13

Where are we now.....

- Actions taken at the Minneapolis facility to date are:
 - Interim Administrator hired for the Minneapolis Campus
 - Nationwide search for a new administrator initiated with independent search firm
 - New Director of Nursing hired for Minneapolis campus
 - Quality Manager at Minneapolis has been hired

14



Where are we now.....

- Actions taken at the Minneapolis facility to date are:
 - Staffing improvements have reduced the use of agency (contract) nursing support
 - Staffing improvements at the Minneapolis facility based upon resident acuity
 - Over 100 special schedules of nursing staff have been revised to allow for more effective scheduling and aligned with the master nursing schedule.

15

Where are we now.....

- Actions taken at the Minneapolis facility to date are:
 - Use of mandation for nursing staff has been limited
 - Increased the meeting times with local labor representatives from quarterly to monthly to improve communication and work on common concerns
 - Implement Employee Council to work on issues associated with employee morale, employee recognition, and communication.

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Where are we now...Actions taken system-wide....

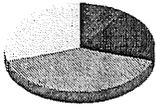
- Mock Survey process in progress with issuance of an RFP to include quarterly surveys of the Minneapolis facility
- RFP's being developed for a financial review and development of productivity and staffing benchmarks
- The Board has developed three standing committees to improve oversight:
 - Financial Resources Committee
 - Quality Assurance Committee
 - Special Review Committee

17

Where are we now...Actions taken system-wide....

- The Board and staff are developing better reporting requirements for more comprehensive oversight.
- The Special Review Committee will be responsible for monitoring the 18-month turnaround plan being implemented at the Minneapolis facility

18



Where are we going.....Next Steps

1. The Board and Board Office will continue to work together to evaluate, prioritize and implement the necessary actions.
2. Obtain additional expertise as required, to assist in the implementation of:
 - > Financial Reviews
 - > Employees Satisfaction Survey
 - > Resident Satisfactory Surveys
 - > Developing benchmarks/metrics for performance and staffing
 - > Develop more detailed Board reporting requirements identifying key quality indicators and other performance criteria.

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Where are we going.....Next Steps

1. Supplemental budget request has been submitted to the Department of Finance to augment Agencies biennial budget to cover the costs of:
 - > Staffing adjustments at Minneapolis and other facilities
 - > Responses to HDI report recommendations
 - > Increase in heating fuel costs
 - > Repair and Betterment fund restoration
 - > Wage and benefit adjustments
2. Corrective actions are in progress, additional recommendations are being developed, and the improvements will be ongoing under Board oversight.



20

REPORT

COMPREHENSIVE REVIEW OF THE MINNESOTA VETERANS HOMES, VETERANS HOMES BOARD OF DIRECTORS AND VETERANS HOMES BOARD STAFF

JANUARY 2006



A Total Solutions Partner



OCI

Organizational Concepts International

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I. EXECUTIVE SUMMARY

At the request of the Governor, to better fulfill the Minnesota Veterans Homes Board's mission to oversee and guarantee high-quality health care for Veterans and dependents in its care, Health Dimensions Group (HDG) and its subcontractor, Organizational Concepts International (OCI), were retained by the Minnesota Veterans Homes Board of Directors to conduct a comprehensive review of the Minnesota Veterans Homes, Veterans Homes Board of Directors and Veterans Homes Board Staff and to provide recommendations to the Board relative to our findings that will allow continued high quality health care to be provided.

The Special Review Committee (SRC) quickly began the RFP process and selected consultants to conduct the MVH review as requested by the governor. The primary objective of the engagement was a system-wide analysis of the five Minnesota Veterans Homes (MVH) facilities located in Minneapolis, Hastings, Luverne, Fergus Falls and Silver Bay relative to patient care, staffing, financing, governance, quality assurance, Board of Directors and the functions of the Board Office. The SRC worked closely with the consultants during this engagement.

Specifically, the SRC wanted to enhance and ensure quality resident care while optimizing overall efficiency and effectiveness of the facilities, staff and Board members. The comprehensive review included both on-site and off-site reviews of key operating information, an on-site review of each facility, interviews with Veterans Homes Board members, Minnesota Veterans Homes Board Office Staff and facility management and staff. In addition, several formal online survey processes were conducted that allowed participation at all levels. Feedback was also solicited from key stakeholder groups. All individuals interviewed and/or participated in the survey process were issued a "Tennessee warning". All assessments and surveys were completed between November 28, 2005 and December 23, 2005.

The timeline in which we worked was extremely aggressive and as a result, the participation rates for online surveys were not as strong as we would have preferred. The participation rate for the employee satisfaction survey was 20%, participation of Board of Directors and Administration in the strategic organization performance and alignment survey was 42%, participation by the Board of Directors in the Board governance and best practice survey was 44%. The participation rate in the leadership 360° survey for the Facility Administrators ranged from 21-50%, the participation rate for Board Office Staff was 67-83% and the participation rate for the Executive Director was 73%. In addition, we would like to note that a few of the participants did struggle with the technology utilized for this process as well as some difficulties were encountered in providing employees with a means to take the assessment at the facility in which they work.

HISTORY

On July 26-29, 2005 the Minnesota Department of Health conducted a survey of the Minnesota Veterans Homes-Minneapolis (MVH-Minneapolis) facility. The report received August 23rd, identified a number of licensing violations pertaining to physical plant, dietary and patient care. Patient care deficiencies included residents not being toileted or repositioned properly according to their care plan, oral care not being performed daily and lack of monitoring of fluid intake.

The Veterans Home Board took corrective actions to address these citations including the temporary deployment of Board Office Staff to the Minneapolis Home, hiring additional nursing assistants, licensed practical nurses and registered nurses and providing training to dietary staff on proper storage of sanitized pans and utensils. In addition, a number of improvements to the physical plant were initiated including painting, replacing ceiling tiles and floors.

KEY FINDINGS

The following represents key findings relative to the Minnesota Veterans Homes, Minnesota Veterans Homes Board Office and the Minnesota Veterans Homes Board of Directors.

Minnesota Veterans Homes

- ◆ A clear strength of the five Minnesota Veterans Homes is a deep commitment to the mission and vision of the Homes by employees.
- ◆ Overall, the quality of care and the level of services provided to Veterans and their dependents are very high. The comprehensive review of the Minnesota Veterans Homes revealed that quality by and large in most facilities exceeds expectations.
- ◆ The MVH-Minneapolis has taken significant action relative to developing and implementing quality initiatives over the past six months. This has resulted in a much stronger position relative to quality and regulatory compliance.
- ◆ Staffing levels in the various MVH sites are well within expected levels for nursing facilities and domiciliary care facilities unless otherwise noted within the report. Not only are direct nursing hours adequate but those in all support areas as well demonstrate adequate staffing overall. However, additional direct care staff is recommended at MVH-Hastings and MVH-Luverne.
- ◆ Clinical staffing shortages at MVH-Minneapolis have been resolved which has resulted in direct staffing levels appropriate to meeting the needs of residents.

- ◆ We found MVH-Fergus Falls to be among the best nursing homes we have reviewed in Minnesota and MVH-Luverne is also a very strong performer. The clinical staffing levels and employment longevity of staff contribute to a very resident centered quality environment.
- ◆ A significant need exists for a universal and consistent method to effectively manage performance throughout the Organization. Chronic performance problems have been tolerated. In addition, emphasis needs to be placed on identifying, recruiting and retaining highly talented employees.
- ◆ Role confusion is occurring between the Facility Administrators and Board Office Staff. The current loose oversight model utilized by the Board Office allows ambiguity in procedure and decision making at a facility level.
- ◆ The Facility Administrators outside of the Minneapolis location feel they are required to implement solutions that are suitable for the complexity of the Minneapolis facility and not appropriately scalable to their needs.
- ◆ In our survey findings there is a lack of alignment between employees and management as it relates to management modeling, building teams, coaching, empowerment, employee feedback and informal communication. Management perceives their effectiveness significantly higher than their employees.

Minnesota Veterans Homes Board Office

- ◆ The Board Office Staff are dedicated to Veterans and the mission of the Organization. They view the employee commitment to Veterans as a significant strength as well as the broader community support through funding and volunteerism.
- ◆ Through surveys and our interviewing process we found that significant role ambiguity exists between the Board Office Staff and Facility Administrators. While style and approach to management does vary, the basic management and accountability systems are unclear. The Board Office does not function with the clarity needed for an organization of the size and complexity of the Veterans Homes.
- ◆ Administration does not appear to take responsibility in dealings with Board Office Staff expectations, accountabilities and roles and responsibilities. This has resulted in confusion relative to the function of Board Office Staff.
- ◆ In our interviewing process we found a mutual lack of trust between a number of the Board of Directors and several of the Board Office Staff. We were unable to identify the root

cause; however, it is likely that role ambiguity, authority and decision-making rights are contributing factors.

- ◆ The Board Office Staff has taken significant steps to ensure the ongoing quality of the MVH-Minneapolis. While commendable, fulfillment of other duties that impact all the MVHs has been limited, which could put the overall organization at risk.

Financial Systems Review

- ◆ The Organization has sufficient policies and procedures (the “P&Ps”) in place to ensure adequate controls over financial information. However, it is unclear if all the P&Ps are being followed or applied.
- ◆ The Office of the Legislative Auditor conducts individual audits of each of the five Veterans Homes. One emphasis of the audit is internal controls. There are issues consistently identified that remain unresolved for the subsequent audit period. For example, the 2002 – 2004 audit report stated, “This audit report contained eight audit findings relating to internal control and legal compliance. Four of those findings were included in our prior audit report.”
- ◆ It is the perception of some members of the Board of Directors that internal controls are weak and are in need of improvement.
- ◆ Based on our interviews with Management, the Organization believes the financial information produced is sufficient to manage ongoing operations. The Board, however, believes the information it receives to be insufficient.
- ◆ The budget process, as described, seems adequate. Basic guidelines are promulgated from Board Office down to the individual homes. The Administrators from the homes assess their situations, develop projected occupancy schedules and prepare their staffing and expenditure needs accordingly. The Administrators send their individual budgets to the Board Office where a consolidation process takes place. However several members of the Board feel the budget documentation they receive is not adequate for their oversight purposes.
- ◆ The financial analysis shows that costs in key support service departments such as plant operations, housekeeping/laundry, dietary, social services and activities therapy are well above the national averages for nursing facilities. The administration and general and nursing departments are also above the national averages. However, the data provided were not detailed enough to provide a reliable comparison. It is unclear what expenses are included in these two areas.

Quality Systems Review

- ◆ Overall, the facilities demonstrated development and implementation of quality assurance in many areas. The MVH-Fergus Falls has implemented a quality program that could serve as a model to the other homes, especially those that have demonstrated quality concerns in the past.
- ◆ Interviews with facility staff indicate that the Board Office historically has acted in a consultative manner. There was no official line of authority and facilities were not required to follow the recommendations from the Board Office Staff.
- ◆ The Veterans Home Board Office has not historically provided a structure or template for the facilities in developing and/or establishing a Quality Program/Process.
- ◆ Few facilities have been able to make the leap from Quality Assurance (QA) which was retrospective in nature to Quality Improvement (QI), which is more forward looking. In addition not all facilities have a consistent process for documenting and implementing action plans for improvement that clearly outlines timelines, responsibilities and follow-up.
- ◆ According to staff interviews, the facilities are required to report through their Administrators their monthly Quality Indicator information to the Board/Board Office. There was no evidence of any feedback and/or accountability back to the facility built into this system for any changes or deviations from the “benchmarked standards”.
- ◆ The Organization does not have formalized Quality Standards other than the Department of Veterans Affairs (DVA) survey guidelines/requirements and the Minnesota Department of Health Regulations. The domiciliary facilities are currently working on establishing two (2) standards.

Strategic Planning Review

- ◆ Interviews indicate that a strategic planning process occurred during 2004 – 2005. Four meetings were held that included key Veteran Service Organization representatives, as well as the Board of Directors, Facility Administrators and Board Office Staff.
- ◆ Through interviews and survey data, inconsistencies were found in the outcome of the strategic planning process as it relates to the Minnesota Veterans Homes’ organizational strategies, priorities and action plan.

Minnesota Veterans Homes Board

- ◆ Through interviews with Board members as well as survey data collected, the commitment to “serving those who served” through the Minnesota Veteran Homes is clear and strong.

- ◆ The Board of Directors has not fully fulfilled its charter as a governing body. Some members of the Board function in an advisory role rather than as full governing board members. In addition, enough consideration has not been given to the skill sets required to serve on the Board beyond personal commitment to veterans.
- ◆ The role of the Board as a governing board is not clearly understood by the Board Office and facility administration.
- ◆ There is a lack of confidence by the Board relative to the Administration and reportedly a historical lack of communication and action between the Board, Board Staff and facility administration at the MVH-Minneapolis Home. The lack of effective communication and action most likely had a causal effect on the negative regulatory position of the MVH-Minneapolis.
- ◆ Interviews indicate that new member orientation and ongoing Board member development is not adequate. In addition, some Board members are unfamiliar with the Board's role.
- ◆ Due to a lack of a shared strategic direction, a detailed operating plan and agreed upon key metrics, the Board is in a reactive rather than proactive mode.
- ◆ The Board recently developed a Quality Committee and Finance Committee; however, the roles and functions of these committees are not well developed at this time.
- ◆ The Board survey indicates consistent, positive feelings within the Board about their interactions, relationships and communications with each other. Specifically, they feel the Board interactions are candid, respectful, engaging and deal with conflict effectively.

Based on the results of the Organizational Assessment, Financial Systems Review and Governance Review, the following represent our Critical Recommendations. As such, implementation of these recommendations should be highest priority.

CRITICAL RECOMMENDATIONS

1. Create an 18-month turnaround plan for Minneapolis
2. Recruit a top quality Minneapolis Management team ASAP (but carefully)
3. Use external experts for Mock Surveys
4. Implement changes to Minneapolis structure into smaller distinct operating units
5. Operate the Board of Directors as a governing Board - not an advisory one
6. Clarify roles and functions between Board Office Staff and Facility Administrators

7. Relocate Board Office Staff onto the Minneapolis campus
8. Establish a shared strategic agenda and priorities at the Board Level. Delegate creating an implementation plan for the MVH organization
9. More effectively utilize Board committees and possibly recruit ex-officio members
10. Establish and monitor select key performance metrics that support strategic direction of the Minnesota Veterans Homes

RECOMMENDATIONS

The following represents our overall recommendations and encompasses the critical recommendations listed above. In addition, a number of specific recommendations have been made throughout this document for consideration by the Board, Board Office and Facility Administration.

A. MINNESOTA VETERANS HOMES-MINNEAPOLIS

1. Develop a detailed 18-month turnaround plan for the MVH-Minneapolis facility with milestones and metrics. This should also include a transition plan to facilitate Board Office Staff members on temporary assignment to MVH-Minneapolis moving back to their Board Office Staff roles as key leadership positions are filled. The SRC should be charged with monitoring the progress of this plan.
2. Recruit a seasoned top quality management team for MVH-Minneapolis as soon as possible. A stable management team is needed to assure future success at this location. Because the top two leadership positions in this high profile facility are empty, retain outside assistance with the recruiting, interviewing and assessment process. Ensure that selected candidates are a good fit to the existing culture.
3. Use an external organization to conduct quarterly Mock Surveys of the MVH-Minneapolis facility as a means to ensure compliance during the next 12 months. While internal Mock Surveys have been conducted in the past, the recent history of citations requires more aggressive action and accountability.
4. Revise staffing policies at the MVH-Minneapolis site to better meet resident needs. Historically a significant number of employees (more than 100) had schedules that were specifically modified to meet the needs of employees as opposed to meeting the needs of

residents. This practice should be replaced by a fair and equitable scheduling practice based on other factors including seniority and level of expertise.

5. Implement the changes to the nursing structure at the MVH-Minneapolis facility as developed by the Administrative Team as a first step in development of a new management model for the Minneapolis Veterans Home.
6. After the turnaround plan is completed, we recommend a structure at MVH-Minneapolis with distinct operating units. Each operating unit would have an assigned Administrator and Assistant Director of Nursing as well as support staff in the areas of social services and therapeutic recreation. Each “service area” would function as an independent business unit with the teams of staff working together to meet the needs relevant to their residents. Staff would have a matrix reporting structure with accountability to the Facility Administrator and Directors as necessary.
7. A formal program should be implemented at MVH-Minneapolis to boost employee morale and celebrate the successes of the facility. This program would serve as a pilot program for implementation in all Minnesota Veterans Homes.

B. ALL MINNESOTA VETERANS HOMES

Based on the results of the Organizational Assessment, we recommend the following be implemented in all facilities.

1. **Staff Union Salaries** – Although this is a long term issue, we recommend staff salaries in future union contracts be regionalized based on a cost of living index.
2. **Replacing Ineffective Employees** – Supervisors must be supported by the Minnesota Veterans Homes Board, Board Office Staff and facility management in dealing with performance problems. We recommend that MVH Board Staff, through its Human Resource function, be proactive in educating facility managers to more effectively deal with problem employees on a timely basis.
3. **Staff Training** – We recommend the Minnesota Veterans Homes Board Staff assign regional training responsibilities to facility staff. This role would provide general training on an ongoing basis and coordinate training specialists in other areas of facility

operation. The regional training position would also be responsible for assisting each MVH facility in developing and monitoring an annual staff training plan.

4. **Public Affairs/Development Plan** – We recommend that each facility develop an annual public affairs/development plan utilizing the Public Affairs and Legislative Director of the MVH Board Staff to coordinate the public affairs/development plan development and implementation. This plan would be aimed at improving communication of each facility with Veterans and the general public as well as providing a process to maximize the raising of development funds.
5. **Department Head Meetings** – We recommend that facility Department Heads from each discipline meet at least annually as a group to learn how to better share resources, learn of new methods/procedures and discuss new ideas for operation. It is also recommended that a complete and detailed agenda be developed and utilized at each meeting.

C. **BOARD OFFICE STAFF**

1. Clarify the Board Office Staff roles and accountability in relation to the Facility Administrators and Management teams. Presently we do not recommend change in the organizational structure of the Board Staff or the Management Staff of the Veterans Homes.
2. Board Office Staff roles exist to provide expertise, create systems/processes and audit the effectiveness of those systems and processes developed, especially in the areas of Quality Assurance, Human Resources, Information Technology and Finance. Each Director should develop a transition plan that moves from a loose oversight model to a more centralized office model. This creates a management staff with authority to develop systems and processes while providing monitoring and oversight. We expect the Board Office staff would seek input from the Facility Administrators and their team regarding their facility requirements.
3. Develop a formal Strategic Planning Process. The lack of a clearly defined strategic plan and shared priorities for the Board Office and at the facility level is placing the Minnesota Veterans Homes at risk given the movement from institutionalization to Home and Community Based Services. The Board Office, in conjunction with the Administrators of the Minnesota Veterans Homes, should undertake a rigorous process to

create a strategic plan with detailed milestones and metrics. The Board should provide input as a key stakeholder and give final approval for the Strategic Plan.

4. The lack of trust and credibility in the relationship between some members of the Board of Directors and the Board Office needs to be addressed before any significant improvements can be made in the effectiveness of the Board Office.
5. Relocate the Board Office Staff onto the MVH-Minneapolis campus. The current Board Office Staff is housed in St. Paul. The Board Office would continue to keep only a small suite of shared offices in St. Paul for meetings with key constituents or use by Board Office Staff or Board of Directors as necessary during the legislative session. The close proximity of the Board Office to the MVH-Minneapolis campus will ensure more effective communication between the Board Office Staff and the facility and serves as effective means to monitor quality and operations of the facility on a daily basis.

D. BOARD OF DIRECTORS RECOMMENDATIONS

Overall, we recommend that the Minnesota Veterans Homes Board and Veterans Board Staff develop and implement a clear, shared strategy to fulfill its mission. Specific, measurable objectives and systems to support them are necessary as is information/metrics to support the strategy and mission. The Board should continue to have committees function as subsets of the Board and report to the Board at all Board meetings. Lastly the SRC should monitor progress in Minneapolis relative to securing appropriate staff and ensuring ongoing compliance. Progress should be made quickly.

1. The role of the Board of Directors is of significant importance in the ongoing operations of the Minnesota Veterans Homes. The Board has sometimes operated in an advisory capacity rather than fulfilling its governance function. We recommend the Board operate as a fully governing Board as established by State Statute to develop the strategic direction and policies to fulfill its mission.
2. Begin a Board Development program to answer questions regarding the Board's role in decision making and the development of systems for the Board to operate effectively that includes necessary education for and obligations of Board members. New member orientation and ongoing Board development need to be part of the Board's work. Board members skill sets should be identified and utilized to the best capacity. Efforts should be made to identify potential Board members with skill sets that complement the needs of

the Organization. As an ever-changing Board, it is imperative that the Board establish a formal orientation program for new Board members with roles and responsibilities. In addition, ongoing Board development will continue to cement the role of the Board, will ensure implementation of strategies and mission and will foster communication between the Board and Board Office Staff.

3. Establish select key performance metrics that support the mission and strategic agenda based on industry standards. A number of internal and external metrics should be developed to ensure adherence to quality care and operational standards in each Veterans Home. External metrics include community stakeholder satisfaction and industry best practices. Internal metrics might include resident care indicators, financial performance, employee satisfaction or physical plant stewardship. The metrics would become a core component of each Board meeting to review the current performance of each facility. A consistent format should be developed so that information can be tracked and compared from one meeting to the next and between facilities.
4. The Board should maintain and clarify the role of the Finance and Quality Committees. The committees should have appropriate representation from the Board, Board Office and facilities to ensure that committee goals are achieved. In addition, consideration should be given to the appointment of ex-officio members to all committees as a means to secure expertise and identify potential new board members.

NEXT STEPS

Implementation of the Critical Recommendations as well as overall recommendations must be carried out in a structured, well developed manner to ensure the long term success of the Minnesota Veterans Homes.

Key next steps include the following:

1. The Board and Board Office should work together to prioritize recommendations and develop an Implementation Plan.
2. For those areas where external expertise is required to assist in implementation, identify and retain qualified organizations.
3. Finalize Implementation Plan and begin implementation.

II. INTRODUCTION

At the request of the Governor, to better fulfill the Minnesota Veterans Homes Board's mission to oversee and guarantee high-quality health care for Veterans and dependents in its care, Health Dimensions Group (HDG) and its subcontractor, Organizational Concepts International (OCI), were retained by the Minnesota Veterans Homes Board of Directors to conduct a comprehensive review of the Minnesota Veterans Homes, Veterans Homes Board of Directors and Veterans Homes Board Staff and to provide recommendations to the Board relative to our findings that will allow continued high quality health care to be provided.

Specifically, the Special Review Committee (SRC) desired a project that enhances and ensures quality resident care while optimizing overall efficiency and effectiveness of the facilities, staff and Board members. As requested by the Special Review Committee, the scope of the comprehensive review included the following:

1. Evaluate the adequacy of organizational issues at the Board Office and each Home including:
 - ◆ Management and organizational structure
 - ◆ Department structures and charters
 - ◆ Succession planning for the Executive Director and Administrators
 - ◆ Succession planning for the other key management positions
 - ◆ Level of staffing in key functional areas such as quality of care, nursing, accounting, financial reporting, legislative compliance and operations risk management
 - ◆ A system-wide analysis of resident care, staffing, financing, governance and quality assurance
 - ◆ Evaluate the effectiveness of relationship management with regard to government entities, veteran services organizations, family councils and community leaders

2. Assess the adequacy of skills and expertise of key Veterans Homes Board Staff relative to current and anticipated operations:
 - ◆ Executive Director
 - ◆ Human Resources Director
 - ◆ Finance Director
 - ◆ Quality Assurance Director

- ◆ Government Affairs Director
- ◆ Projects Director
- ◆ General Counsel

3. Assess the following of the Veterans Homes Board of Directors:

- ◆ Committee structures
- ◆ Committee charters
- ◆ Knowledge and skills of Directors
- ◆ Composition of committees
- ◆ Board oversight
- ◆ Adequacy and quality of agenda materials provided to the Board
- ◆ Other relevant governance issues

As a means to meet the requested timeline, HDG and OCI developed a four Phase approach which will result in a final document that can serve as the “blue print” for a detailed implementation and action plan for the future. The four phases include the following:

- Phase I: Project Planning
- Phase II: Organizational/Financial Assessment and Governance Assessment
- Phase III: Facilities Review
- Phase IV: Final Report Findings with Recommendations

This document represents completion of Phases I, II and III of the project. Following a review of the document by the SRC and the Minnesota Veterans Homes Board, a final report will be prepared and submitted based upon mutually agreed upon outcomes.

III. ORGANIZATIONAL ASSESSMENT OF MINNESOTA VETERANS HOMES

Health Dimensions Group conducted a comprehensive operational and financial review of each of the Minnesota Veterans Homes between December 5 and 15, 2005. A summary of our findings and overall facility recommendations or each organizational assessment are included below. Please refer to Appendix A for the detailed assessment of each Minnesota Veterans Home.

The following key areas were assessed at each facility.

Operations Non-Nursing

1. Organizational Structure and Department Structure
2. Food Services
3. Environmental Services
4. Maintenance
5. Therapeutic Recreation
6. Finance/Accounting
7. Human Resources
8. Social Services
9. Therapy Services
10. Physical Plant

Nursing/Clinical Operations

1. Nursing Organizational Structure
2. Nursing Staffing Levels/Patterns/Agency use
3. Roles and Responsibilities of the Nursing Staff
4. Facility and Organizational Quality Program/Process
 - a. Facility Specific Quality Initiatives
 - b. Data Collection and Reporting
 - c. Quality Measures/Indicators
 - d. Facility Connection/Understanding with the Veterans Board/Board Office
 - e. Best Practices
 - f. Quality Standards
 - g. Understanding of Veterans Home/Facility Mission/Vision
 - h. Resident/Family Council Review

5. Clinical Programs
6. Regulatory Compliance/Process
7. Staff Training

The following represent HDG's key findings and recommendations relative to the operations of each component reviewed for each facility. The detailed results of the Organizational Assessment can be found as Appendix A and includes more specific findings and recommendations. It is important to note that in many cases the findings were consistent throughout all facilities assessed and recommendations are similar for several facilities.

1. Minnesota Veterans Home – Minneapolis

Operations Non-Clinical

- ◆ Turnover in management team positions, i.e. the Administrator and the Director of Nurses, has been significant over the last year with these positions currently filled by Board Office Staff.
- ◆ The facility is in the process of enhancing dining services through the use of steam tables and plating on the units and in the main dining room. This will likely increase customer satisfaction.
- ◆ Given the age and size of the facilities, the current maintenance staff is barely adequate to meet the needs of the campus. New positions should be considered after consideration as to the highest needs and if budgeted.
- ◆ The presence of the Pharmacy on-site is a strong advantage to the facility and should be maintained.

Clinical Operations

- ◆ The physical layout of the facility impacts the effective provision of nursing services.
- ◆ Staffing levels, both direct and indirect, are sufficient to meet the clinical needs of the residents.
- ◆ A new structure is being implemented for Nursing Management that will result in more effective nursing oversight and management.

Quality

- ◆ The Quality process has not been totally integrated into the facility's culture.
- ◆ Formal Quality Standards are not in place in the facility.
- ◆ The facility does not have a formalized system for survey preparation or readiness and as such remains vulnerable for non-compliance based on the fragility of any new systems developed.

2. Minnesota Veterans Home – Fergus Falls

Operations Non-Clinical

- ◆ The facility enjoys stable management and administration.
- ◆ Dietary staff is assessing mechanisms to enhance the dining services.
- ◆ The facility is very clean and well maintained.
- ◆ All non-clinical departments are adequately staffed.

Clinical Operations

- ◆ Staffing levels, both direct and indirect are sufficient to meet the clinical needs of the residents.
- ◆ Nursing roles and responsibilities are well established and understood by staff.

Quality

- ◆ The facility has an innovative and creative Quality Program/Process based on the “Wizard of Oz”.
- ◆ The Quality Council meets quarterly and has effectively implemented quality initiatives.
- ◆ Quality initiatives have been fully integrated into the facility’s culture.
- ◆ Interviews with facility staff indicate that the Board Office historically has acted more as a “consultant”. There was no official authority and the facility is not officially required to follow the recommendations.

3. Minnesota Veterans Homes – Hastings

Operations Non-Clinical

- ◆ The current organizational structure and working relationship of the management team are serving the facility well.
- ◆ Non-clinical staffing levels are appropriate for all departments reviewed.
- ◆ Few evening activities are planned in the facility and as such assignment of a Recreational Therapist to evening hours would enhance resident quality of life.

Clinical Operations

- ◆ The physical layout of the facility impacts the effective provision of nursing services.
- ◆ Staffing levels for direct care are below expected levels for a facility of this size and the resident acuity. Additional Human Service Technicians (HST) staff is recommended to continue to provide high quality services to residents.

Quality

- ◆ The facility has a Continued Improvement plan as opposed to a Quality Improvement plan. Staff indicate involvement in the process.
- ◆ The Quality Process has not been totally integrated into the facility's culture. Participation by all direct care staff members is necessary.
- ◆ Formal Quality Standards are not in place in the facility nor does the facility have a formalized system for survey preparedness or readiness.
- ◆ Interviews with facility staff indicate that the Board Office historically has acted more as a "consultant". There was no official authority and the facility is not officially required to follow the recommendations.

4. Minnesota Veterans Homes – Silver Bay

Operations Non-Clinical

- ◆ The current organizational structure and working relationship of the management team are serving the facility well.
- ◆ Non-clinical staffing levels are appropriate for all departments reviewed.
- ◆ A number of departments indicated space constraints which impacts the provision of services to the residents. In addition, the facility is severely lacking storage space.

Clinical Operations

- ◆ Staffing levels, both direct and indirect, are sufficient to meet the clinical needs of the residents.
- ◆ Nursing roles and responsibilities are well established and understood by staff; however, staff voiced concern relative to the approachability of Management staff.

Quality

- ◆ The facility utilizes the Quality Assurance Model which meets on a quarterly basis for Regulatory Compliance.
- ◆ The Quality Process has not been integrated into the facility's culture as evidenced by numerous interviews with staff at all levels.
- ◆ Staff interviewed remarked that there is a need for increased Leadership goals and an integration/communication throughout the facility of these goals.
- ◆ General Orientation does not include a Quality Improvement/Process component.
- ◆ Interviews with facility staff indicate that the Board Office historically has acted more as a "consultant". There was no official authority and facilities were not officially required to follow the recommendations.

5. Minnesota Veterans Home – Luverne

Operations Non-Clinical

- ◆ The facility enjoys stable management and administration.
- ◆ The facility is very clean and well maintained.
- ◆ All non-clinical departments are adequately staffed.

Clinical Operations

- ◆ Staffing on the Red Wing Unit indicate that levels are below expected benchmarks. As such staffing levels should be increased by 3 FTEs on that unit to achieve appropriate staffing levels.
- ◆ Nursing roles and responsibilities are well established and understood.

Quality

- ◆ The facility utilizes the Quality Assurance Model which meets on a quarterly basis for Regulatory Compliance as well as other committees, such as pharmacy, safety, etc. that meet routinely.
- ◆ The Administrator is the designated Quality Coordinator.
- ◆ Although the facility has TQM (Total Quality Management) policies, the Quality Process has not been integrated into the facility's culture as evidenced by numerous interviews with staff at all levels.
- ◆ Staff interviewed remarked that there is a need for increased input into facility goals and an integration/communication throughout the facility of these goals to all levels of staff.
- ◆ Staff interviews indicate that the QI process is an "informal one" - "nothing fancy" - "we just do it".
- ◆ Interviews with facility staff indicate that the Board Office historically has acted more as a "consultant". There was no official authority and facilities were not officially required to follow the recommendations.

6. Minnesota Veterans Homes Overall Recommendations

Overall, the Minnesota Veterans Homes were by and large found to be excellent operations that strive for high quality health care in an attractive, clean and comfortable environment for Minnesota Veterans. Facility staff appear to be very happy, in general, with their positions and truly are concerned for the well-being of each of the facility residents. The following represents key overall recommendations for implementation at all Minnesota Veterans Homes. For specific detailed recommendations for each MVH please refer to Appendix A.

1. **Staff Union Salaries** – Although this is a long term issue, it is recommended that staff salaries in future union contracts be regionalized based on a cost of living index.
2. **Replacing Ineffective Employees** – Supervisors must be supported from the Minnesota Veterans Homes Board Staff on down to the facilities. It is recommended that MVH Board Staff, through its Human Resource functions, be proactive in educating facility managers to more effectively deal with problem employees.
3. **Staff Training** – It is recommended that Minnesota Veterans Homes Board Staff assign regional training responsibilities to provide general training to facility staff on an ongoing basis as well as coordinate training specialists in other areas of facility operations. The regional training position would also be responsible for assisting each MVH facility in developing an annual staff training plan.
4. **Public Affairs/Development Plan** – Utilizing the Public Affairs and Legislative Director of the MVH Board Staff to coordinate the process, we recommend that each facility develop an annual public affairs/development plan. This plan would be aimed at improving communication of each facility with Veterans and the general public as well as providing a process to maximize the raising of development funds.
5. **Department Head Meetings** – It is recommended that facility Department Heads from each discipline meet at least annually as a group to learn how to better share resources, learn of new methods/procedures and discuss new ideas for operation. A complete and detailed agenda should be developed and utilized at each meeting.

IV. GOVERNANCE AND MANAGEMENT ASSESSMENT

OCI Companies conducted one on one interviews with nine Board members, the Executive Director, six Board Office Staff, four Facility Administrators and four Facility Human Resource representatives. In addition, we reviewed relevant documents such as policy, agenda, minutes and organization charts and utilized four Internet-enabled surveys to gather data. All individuals interviewed and/or participated in the survey process were issued a “Tennessee warning”. The detailed results of the findings are available in Appendix B.

In regards to the survey participation, the timeline in which we worked was extremely aggressive and as a result, the participation rates were not as strong as we would have preferred. In addition, we would like to note that a few of the participants did struggle with the technology utilized for this process, as well as providing employees with a means to take the assessment at the facility in which they work was challenging.

Based on individual interviews and standardized survey tools, OCI Companies makes the following recommendations regarding governance and management for the Minnesota Veterans Homes. The bases for these recommendations are outlined in the following report and in Appendices E, F and G.

Survey Participation/Information

QuadStrat is a strategic organization performance and alignment survey. The Board and Management responded to statements covering 35 best practice areas within the key areas of organization strategy, organization design and organization culture. They were asked to both prioritize future impact on the Veterans Homes as well as current effectiveness of the organization in each key area. Board members, Board Office Staff, Facility Administrators and their direct reports were invited to respond and 40% did so. Our goal was to have 100% participation of Board members. Participation may have been diminished due to tight deadlines and access to technology.

	Invited to Participate	Responses	Percentage
External Board	9	4	44 %
Management	61	24	40 %

QuadClimate is an employee satisfaction survey that assesses an organization's work climate against 55 best practices and alignment between the management and employee perspective. All employees and managers were invited to participate. The data were broken out by key management groups (Board Office Staff, Facility Administrators and their direct reports) versus remaining employees from all locations. The employee response rate was 20% organization wide.

	Invited to Participate	Responses	Percentage
Minneapolis	545	162	30 %
Silver Bay	131	19	15 %
Fergus Falls	145	3	2 %
Luverne	168	11	7 %
Hastings	95	19	20 %
TOTAL	1084	214	20 %

QuadBoard is a Board governance and best practice survey. Areas covered include Board composition, Board committees, Board and Executive Director compensation, strategic planning, Board procedures, Board interaction, Board information and Board and Executive Director effectiveness. Participants were asked to identify high impact Board issues as well as evaluate current Board effectiveness. Nine Board members and the Executive Director were invited to participate and 50% did so.

QuadLead is a leadership survey that reflects both what a leader does (competence) as well as who a leader is (character). All Board Office Staff and Facility Administrators were invited to complete the self-assessment.

Leadership Competence	Leadership Character
<ul style="list-style-type: none"> ◆ Vision and strategy ◆ Job competence ◆ Industry knowledge ◆ Communication skills ◆ Leading change ◆ Execution 	<ul style="list-style-type: none"> ◆ Leadership image ◆ Developing a following ◆ Judgment/decision making ◆ Ethics/character ◆ Coaching/mentoring ◆ Building teams

The Board of Directors, Facility Administrators and Board Office Staff were invited to provide feedback to the Executive Director. The Executive Director and department heads were invited to provide feedback to the Facility Administrators. The Executive Director and Facility Administrators were invited to provide feedback to the Board Office Staff. Because of data privacy laws there is a limit to what can be disclosed with respect to employee performance feedback. Below is a chart that shows the participation rates.

	Invited to Participate	Responses	Percentage
Executive Director	22	16	73 %
Hastings Administrator	6	3	50 %
Silver Bay Administrator	14	3	21 %
Luverne Administrator	13	3	23 %
Fergus Falls Administrator	14	3	21 %
Human Resource Director	6	5	83 %
Public Affairs Director	6	4	67 %
Financial Mgmt. Director	6	5	83 %
Program Administrator	6	5	83 %
Quality Assurance Director	6	5	83 %
IT Director	6	4	67 %

Key Stakeholder Survey

We solicited input from 35 community-based key stakeholders affiliated with the Minnesota Veterans Homes. They were members of Family Councils and Veteran Service Organizations. To reiterate, because of the tight timeline we did not achieve the level of participation that we would prefer. There was a 69% response rate to the survey.

GENERAL OBSERVATIONS/FINDINGS

Findings	Evaluation/Recommendations
<ul style="list-style-type: none">◆ Our interview and survey data indicate that there is a deep commitment to the Mission and Vision by all employees and stakeholders. This is not something to be taken for granted. It has provided a stable foundation as the Organization's compass for many years and has served residents and their families well.◆ MVH is a complex organization that is challenging to effectively manage and work within. The size of the MVH-Minneapolis facility in comparison to the others has created challenges regarding scalable systems, work procedures, internal communication, accountability and quality of work life.	<ul style="list-style-type: none">• The following are factors that limit the flexibility to make changes:<ol style="list-style-type: none">1. A unionized work force2. Funding from multiple sources3. A different job market for Minneapolis than the out-state locations• There are some things that can and should be changed including:<ul style="list-style-type: none">- Role ambiguity with the Board Office Staff- The conflict avoidance management culture and lack of clear accountability

BOARD OF DIRECTORS

We conducted nine (9) one on one interviews with members of the Board of Directors. Our assessment is that Board members are highly committed to providing excellent care for Minnesota Veterans in a safe environment and see this as a significant strength of the organization. **Other findings and recommendations are listed below in no particular order.**

Findings	Evaluation/Recommendations
<ul style="list-style-type: none"> ◆ Additional strengths perceived include level of funding, the variety and frequency of services provided to residents and the newness of several facilities. ◆ There appears to be different perspectives on the role of the Board of Directors. We understand the role of the Board has evolved over time. Currently confusion exists over whether this is a governing Board of Directors or an advisory Board. ◆ There was a 25% difference in perspective between the administration and the Board of Directors regarding information provided to the Board. Specific concerns identified include the quality and timeliness of information provided to the Board. ◆ During 2004-2005 the Minnesota Veterans Homes, under the leadership of administration, embarked on a strategic planning process. Four meetings were held that included key Veteran Service Organization representatives as well as the Board of Directors, Facilities Administrators and Board Office Staff. The minutes of these meetings didn't identify specific priorities and actions to be implemented. This was consistent with the wide variety of responses about the 	<ul style="list-style-type: none"> • Clarify the role of the Board and determine if this is an 'advisory' Board or a full 'governing' Board. • As a Board, set a shared strategic agenda and priorities. Communicate to the Executive Director and have action plans and clear accountabilities established for the next two years. • The Special Review Committee (SRC) was formed in the summer of 2005. From discussions with the non-SRC Board members, the SRC's charter and scope is unclear as well as when their work will be completed. This ambiguity is creating confusion between Board members regarding the SRC's role, deliverables and authority. • There is a mutual lack of respect and trust between some of the Board of Directors and several Board Office Staff. In this brief engagement we were not able to determine the root causes, however it's likely that role ambiguity, authority and decision-making rights are contributing factors. • Concerns raised about the Minnesota Veterans Homes during the interviews with Board members include the following.

Findings

Organization's key priorities expressed in interviews. The majority of these meetings focused on external trends and facilities. There are different perspectives as to whether the administration or the Board of Directors should have led the strategic planning process.

- ◆ The QuadBoard survey identified specific concerns with the following:
 1. Lack of Board approval for the strategic plan
 2. Lack of process for monitoring progress of the plan
 3. Limited amount of time spent discussing strategic issues in Board meetings
 4. Limited utilization of Board members' experience in developing the plan
 5. Lack of clarity regarding the Organization's achievement toward the strategic plan
 6. As mentioned above, the Board of Directors is not in agreement on the strategic priorities for the Veterans Homes. Perhaps because of this, they were also unclear about the skills and experiences required by future Board members to provide the leadership required to accomplish key strategies.
 7. The QuadBoard survey indicates consistently positive feelings within the Board about their interaction, relationships and communications with each other. Specifically they feel Board interactions are candid, respectful,

Evaluation/Recommendations

Please note that these findings are not in any particular order:

- The size/complexity of the Minneapolis facility
- Chronic employee relations issues in Minneapolis
- Level of future funding to fulfill the Veteran Homes Mission
- A "one size fits all" mindset of Board Office Staff to the five facilities
- Changing veterans/community stakeholder expectations of long term care
- Board of Director's accountability and not feeling adequately informed to establish policy
- Lack of positive/effective internal communications and low morale in Minneapolis
- Role confusion between the Board of Directors and Board Office Staff
- No established process for succession planning to replace Facility Administrators or the Executive Director

Findings	Evaluation/Recommendations
<p>engaging and effectively deal with conflict.</p> <p>8. A lack of alignment exists between the Board of Directors and administration on high impact priorities for the Board.</p>	

BOARD OF DIRECTORS AND ADMINISTRATION HIGH IMPACT PRIORITIES:

The Board of Directors view Board composition, Board information and Board committees as high impact priorities that are currently not very effective. In contrast, administration views Board composition and Board information as significant strengths. Both evaluated the impact and effectiveness of Board procedures about the same, which has room for improvement. There is an average of 15% difference in their scores across the survey.

ADMINISTRATION/BOARD OFFICE STAFF

The QuadLead survey provided data on the strengths and developmental areas as well as alignment between one's self-perception and others' perception. The model includes both what a leader does as well as who a leader is. Below are listed strengths and developmental areas identified through this survey.

Strengths	Developmental areas
<ul style="list-style-type: none"> ◆ Vision and strategy ◆ Positional competence ◆ Leadership image ◆ Ethics/integrity 	<ul style="list-style-type: none"> ◆ Communication skills ◆ Conflict management ◆ Execution/implementation ◆ Judgment/decision making ◆ Building teams

Findings	Evaluation/Recommendations
<ul style="list-style-type: none"> ◆ The Board Office Staff are dedicated to veterans and the Mission of the organization. They view the employee commitment to Veterans as a significant strength as well as the broader community support through funding and volunteerism. They individually bring professional competence and personal commitment to their roles. ◆ The Board Office Staff report being involved in an extensive strategic planning process during 2004-2005, yet offered an inconsistent list of organizational strategies and priorities. They also did not articulate a consistent process to align annual goals and budgets with the strategic plan. ◆ Role ambiguity exists between the Board Office Staff and Facility Administrators. 	<ul style="list-style-type: none"> • Move the Board Office Staff onto the MVH-Minneapolis campus for purposes of more closely aligning the Board Office Staff to a location where the delivery of care is provided. • In an optimum situation, the Board Office Staff would provide specialized expertise including: <ol style="list-style-type: none"> 1. Design systems/processes that create efficiency 2. Audit those processes 3. Provide problem-solving support • To eliminate confusion about what is important, work with the Board to determine the three (3) to five (5) most critical reporting measurements by function to

Findings	Evaluation/Recommendations
<p>There appear to be issues of responsiveness and accountability between the two groups.</p> <ul style="list-style-type: none"> ◆ There are no established schedules or formats for the reports sent to the Board of Directors by the Board Office Staff. Some Board Office Staff consistently attend the Board of Directors meetings, while others seldom attend. There are volumes of reports generated, but no shared agreement between the Board of Directors and the Board Office Staff as to what information is relevant and the key metrics the Board wants to monitor. 	<p>effectively communicate with them.</p> <ul style="list-style-type: none"> • Develop a Board Office Staff work plan on an annual basis, prioritizing resources to meet the critical facility needs with the end objective of increasing the quality of care for the VA residents.

FACILITY ADMINISTRATORS

Findings	Evaluation/Recommendations
<ul style="list-style-type: none"> ◆ The Facility Administrators have been pleased with past funding but are concerned if future funding will keep pace with the emerging needs and expectations of the veteran community. A change of funding could compromise the quality of care provided the residents. ◆ The Facility Administrators perceive strength in the mission driven nature of the organization and employee commitment to Veterans. ◆ They participated in the strategic planning process led by the Board Office Staff during 2004-2005 however; the Facility Administrators didn't articulate a shared understanding of key priorities. Most 	<ul style="list-style-type: none"> • Recognize the difference in the unique needs and challenges of each facility and commit the appropriate resources to the facility needs. • Each facility should have its own "strategic plan" unique to its location, demographics and local labor market that becomes part of the overall annual planning process. • Build a stronger working relationship with the Board Staff to focus on individual facility needs that take advantage of the Board Staff resources and expertise.

Findings

Evaluation/Recommendations

responses reflected:

1. Commitment to meeting emerging needs of Veterans.
 2. Maintaining/enhancing current facilities.
 3. Additional imperatives mentioned included meeting resident behavioral needs and re-establishing trust and credibility following the July, 2005 Health Department survey in Minneapolis.
- ◆ The Facility Administrators of the out-state locations feel they are required to implement solutions that are appropriate for the complexity of the MVH-Minneapolis facility and not appropriately scalable to their needs.
 - ◆ There is some variation in style and approach with some Board Office Staff more directive and other Board Office Staff more consultative with their peers who manage the facilities.

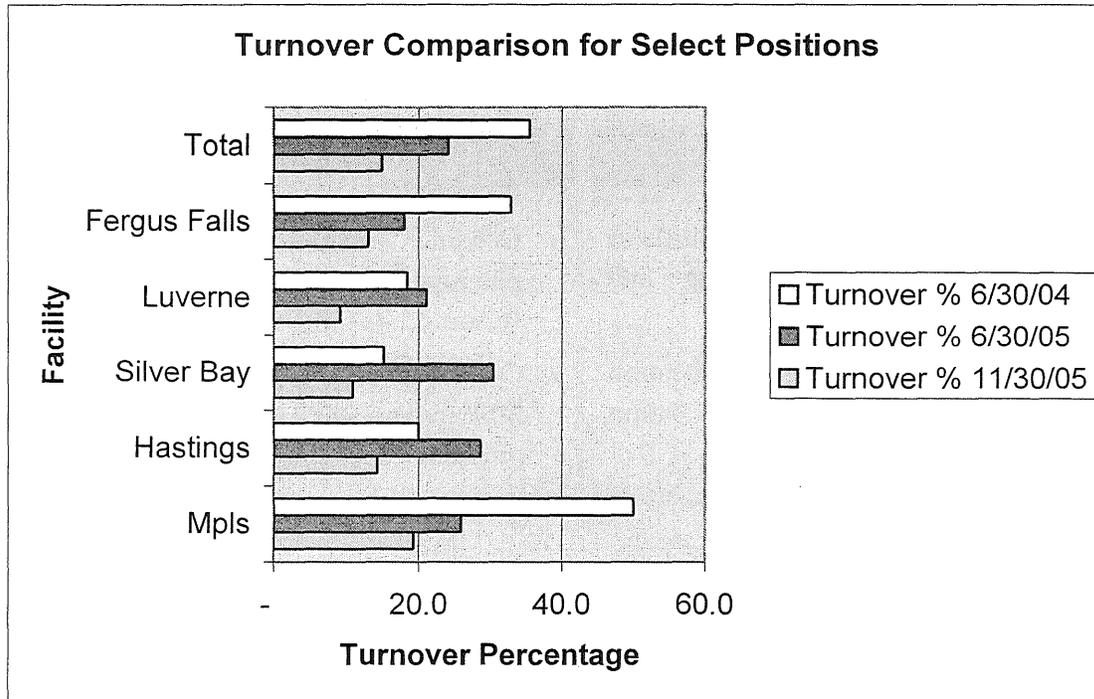
FACILITY HUMAN RESOURCES MANAGEMENT

Phone interviews were conducted with Personnel Representatives (Reps) and an in-person interview was conducted with the Human Resource Director. The following eight areas were the focus of this Human Resource review.

1. TURNOVER

Findings	Evaluation/Recommendations
<ul style="list-style-type: none"> ◆ In our review of data provided and in supporting interviews, turnover differences between the MVH-Minneapolis facility and the out-state homes are noticeable. ◆ In out-state Minnesota, the Minnesota Veteran Homes enjoys a reputation as an “employer of choice”. ◆ In Minneapolis, the Veterans Home competes with other healthcare organizations for qualified employees and has a much more complex and challenging work environment to manage. 	<ul style="list-style-type: none"> • The Minneapolis facility has improved their turnover rates over the past three reporting periods. Please see the STAFFING section on Page 34 for additional comments on turnover.

The graph shown on the following page contains turnover data that includes five select positions that were verified by the Personnel Representatives. These five positions include food service worker, human service technician, licensed practical nurse, general maintenance worker, and registered nurse/RN, senior/RN and supervisor/RN.



* 11/30/05 is for 5 month period

	Turnover 11/30/05	Turnover 6/30/05	Turnover 6/30/04
Fergus Falls	10	19	27
Luverne	9	28	19
Silver Bay	8	22	18
Hastings	5	10	7
Minneapolis	66	95	129
Total	98	174	200

2. HUMAN RESOURCES PLANNING

Findings	Evaluation/Recommendations
<ul style="list-style-type: none"> ◆ In general, the Personnel Reps have little or no participation in the planning and budgeting process. ◆ The budget process is set for their location and the Reps are instructed to work within the process. 	<ul style="list-style-type: none"> • Consider engaging the Personnel Reps in the planning process as it relates to Human Resource staffing, recruitment, policies, etc. • Other than staying within the budget, there is little or no direction given regarding the process.

3. STAFFING

Findings	Evaluation/Recommendations
<ul style="list-style-type: none"> ◆ The staffing process is well defined. ◆ Most locations indicate that low pay is a factor for some of the nursing positions. ◆ The highest demand appears to be for HSTs, LPNs and RNs. ◆ Occasionally, internal pay inequity prevents a location from paying more for a new employee. 	<ul style="list-style-type: none"> • While a process for hiring is well documented, this evaluation did not include an audit of the actual hiring process. A random audit of hiring practices may reveal where the process is not being followed. Rigorous hiring processes and the establishment of key metrics are recommended. • Pay ranges should be location specific. • Consideration should be given to committing additional resources to Minneapolis to address staffing and turnover issues. • Develop a staff recruiting process that is proactive and not reactive.

4. EMPLOYEE SATISFACTION SURVEYS

Findings	Evaluation/Recommendations
<ul style="list-style-type: none">◆ Most of the Reps indicate that they have never performed an employee satisfaction survey at their location.◆ For the locations that did perform surveys, they indicate that they are an important tool for identifying employee morale and a source of ideas from employees on how they could provide the best patient care.◆ There is no awareness of a mandated employee satisfaction survey from the Board.	<ul style="list-style-type: none">• An employee satisfaction survey should be conducted on a regular basis. Feedback should be collected, communicated and followed-up on.

5. MEASUREMENT/REPORTING

Findings	Evaluation/Recommendations
<ul style="list-style-type: none">◆ Most Reps indicate that their payroll/HRIS system has the capability of providing key metrics; however, the reporting capabilities are difficult to produce.◆ Turnover data is provided to the Human Resource Director on a monthly basis.◆ Turnover data is not rolled up into a system-wide report.◆ Conducting exit interviews is not a practice that is performed at most locations.◆ Most Reps indicate that they have a good understanding of why individuals left their location.	<ul style="list-style-type: none">• Identify key Human Resource metrics and provide training on report generation for all locations.• Establish a process for exit interviews at all locations and create a key metric for tracking.• “You can’t improve what you don’t measure”.

6. POLICIES/PRACTICES

Findings	Evaluation/Recommendations
<ul style="list-style-type: none">◆ All locations have a well-defined orientation process for new employees.◆ Orientations vary from 8-16 hours depending on the locations.◆ Orientations generally include filling out paperwork, viewing videos and meeting with key personnel. Policy manuals are reviewed at this time.◆ All locations have ongoing training for employees. Methods vary for how information is passed along to employees including--videos, fairs, classes and invited guests.◆ When asked if any policies or practices get in the way of providing the best patient care, the response was generally "no." An exception may be the practice of mandatory overtime, which occasionally produces an employee who does not have the appropriate attitude when serving residents. The Reps are aware of the scheduling process and are confident that everything is being done to ensure that resident care is always at a high level.	<ul style="list-style-type: none">• Create a team of individuals to review the best practices around the orientation and training process. Follow the best practice.

7. GRIEVANCES/FEEDBACK/SPEAK-UP PROCESS

Findings	Evaluation/Recommendations
<ul style="list-style-type: none"> ◆ All locations report six or fewer grievances for the past 12 months. Relationships with the unions are reported as “good” for most locations. The common themes for grievances are issues with how progressive discipline is conducted and scheduling conflicts. Most locations indicate that the union steward is an asset to their location. ◆ Feedback regarding performance reviews varied greatly by location. Some locations report having 100% reviews performed on an annual basis and some locations have less than 25% reviews performed. There appeared to be a correlation between those locations where the administrator makes reviews a priority and the completion of those reviews. ◆ Personnel Reps are aware that mid-point and annual reviews are mandatory per union contracts. However, pay increases are not linked to completion of a performance review. 	<ul style="list-style-type: none"> • Adhere to policies and procedures on a consistent basis for dealing with performance issues. Comments made in the employee cultural survey indicate that poor performance is not managed. • Consider implementing a performance management system for all locations and create a key metric for managing it within the constraints of the union contracts.

8. OTHER

Findings	Evaluation/Recommendations
<ul style="list-style-type: none"> ◆ All of the Personnel Reps have been in their roles for a minimum of four (4) years. ◆ When asked what resources could improve resident care at their location, the top responses include more money for staffing 	<ul style="list-style-type: none"> • The Personnel Reps should work in partnership with the Administrators on fulfilling the Mission and strategic goals of the Organization. The Personnel Reps must be able to articulate the Mission and strategic goals and understand how the planning and

Findings	Evaluation/Recommendations
<p>and the opportunity to provide higher pay for key positions.</p> <p>◆ The Personnel Reps report having little or no interaction with residents.</p>	<p>budgeting process fits into the goals of the organization.</p>

KEY STAKEHOLDER SURVEY:

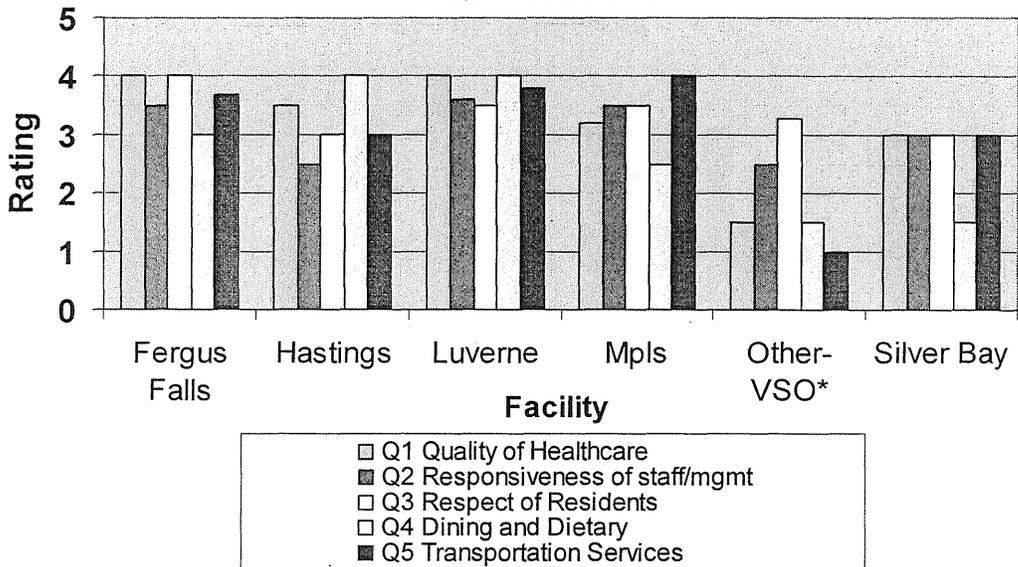
Input from stakeholders of the Minnesota Veterans Homes in the five communities served was solicited regarding their satisfaction with their local facility as well as Veteran Service Organizations. Below are the questions asked and a graphic comparison of responses by location and comments offered. A four (4) response is very satisfied and a one (1) is very dissatisfied.

Overall average response per facility:

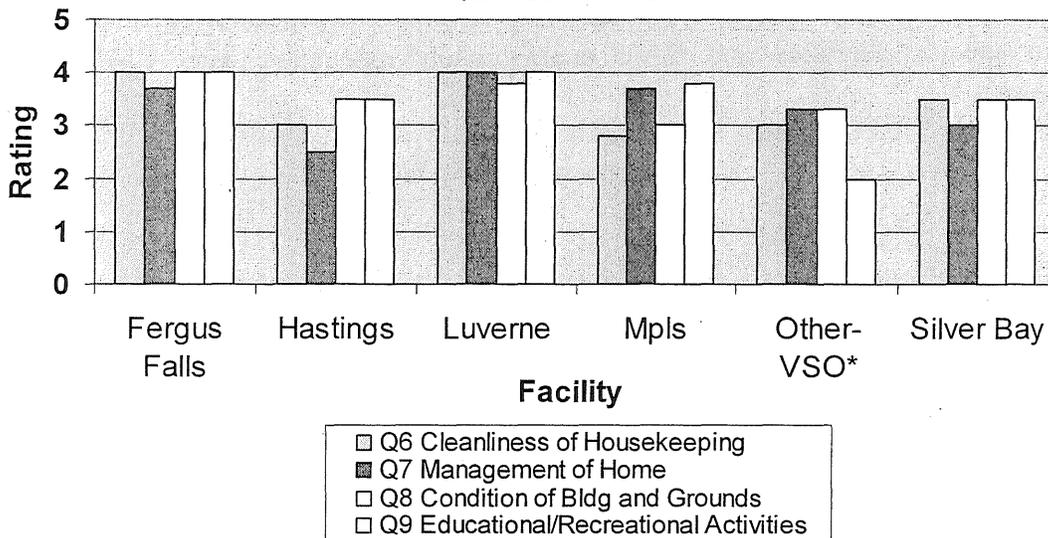
Fergus Falls	3.8
Hastings	3.1
Luverne	3.8
Minneapolis	3.2
Other-VSO*	2.5
Silver Bay	3.1

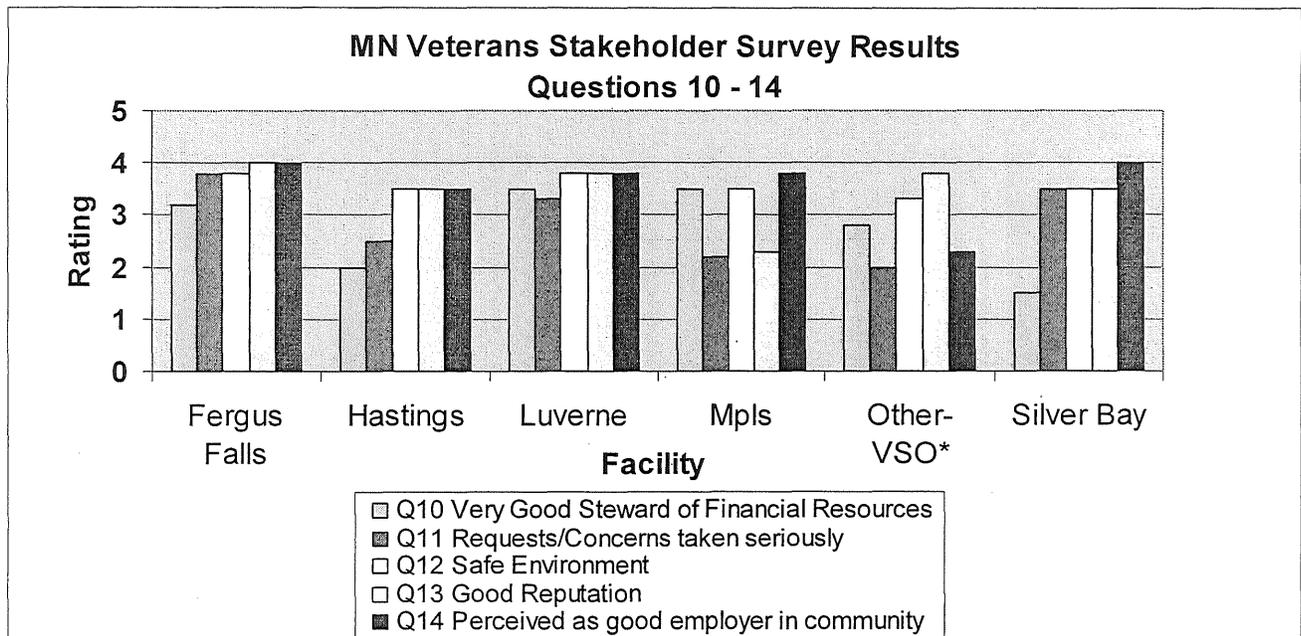
* Officers of state-wide Veterans Service Organizations – this result is also reflective of state-wide systems.

**MN Veterans Stakeholder Survey Results
Questions 1 - 5**



**MN Veterans Stakeholder Survey Results
Questions 6 - 9**





* Officers of state-wide VSOs - is reflective of state-wide systems

Though this wasn't a large sample, it does highlight differences in perceived satisfaction between relatives in specific facilities and those more broadly associated with Veterans Service Organizations.

HIGH IMPACT ORGANIZATIONAL PRIORITIES:

Organizations are perfectly aligned to produce the results they generate. The QuadStrat that was utilized in this assessment process is a strategic organization performance and alignment survey. The Board and management responded to statements covering 35 best practice areas within the key areas of organization strategy, organization design and organization culture. They were asked to both prioritize future impact on the Veteran Homes as well as current effectiveness of the organization in each key area.

A factor contributing to the effectiveness of the Minnesota Veterans Homes is the alignment of employees, managers and Board of Directors around the Mission and Vision of the homes.

	Board	Management	Employees
Mission	72	89	74
Vision	71	82	66

There is agreement between the Board of Directors and management regarding the critical high impact issues that the Organization needs to address. These specifically include:

- ◆ Aligning funds and people with the Organization’s strategic goals
- ◆ Altering the structure to support the strategic goals
- ◆ Working daily to reinforce organizational beliefs and values in the workplace
- ◆ Addressing the causes of organizational cynicism
- ◆ Identifying and recruiting highly qualified employees

When it comes to organizational strategy, design and culture there is a difference between the Board and Management and how they are viewed. However, they both gave marginal scores to the three areas indicating that an opportunity for improvement exists.

- ◆ Organizational strategy includes Mission, Vision, strategic advantage and ten other principal elements.
- ◆ Organizational design includes structure alignment, leveraging core competence, organization communication and five other principal elements.
- ◆ Organization culture includes values credibility, management modeling, empowerment and nine other principal elements.

	Org Strategy	Org Design	Org Culture
Management	70	65	68
Board	56	52	54

There are differences in the alignment of the organization and these differences have been taken into consideration and are included within the Recommendation and Executive Summary.

EMPLOYEE CULTURAL SURVEY:

The following findings and recommendations are a result of the QuadClimate which was the employee satisfaction survey. The employee response rate was approximately 20% organization wide. From the survey, it appears there are significant organizational risks based on the lack of alignment between employees and management. These areas include management modeling, building teams, coaching, empowerment, employee feedback and informal communication. Additional findings and evaluations/recommendations are as follows:

Findings	Evaluation/Recommendations
<ul style="list-style-type: none"> ◆ Management Modeling – both agree it’s important, however management rated themselves 22% higher and view it as a strength not a weakness. A majority of employees expressed lack of confidence in senior leadership. ◆ Building Teams and Coaching – both agree these are important but management rated themselves 18% higher than their employees and view them as strengths. Employees indicate that team performance is not rewarded and their managers are not effective at creating employee support for organizational goals. In addition, delegation is not used as a tool to develop 	<ul style="list-style-type: none"> • Transition the MVH-Minneapolis facility structure by segmenting into smaller operating units over the next 24 months. • Develop processes for hiring and retaining top talent. • In MVH-Minneapolis add a high level Human Resource professional to oversee: <ol style="list-style-type: none"> 1. Administer best practices for talent acquisition and retention 2. Management modeling 3. Building teams 4. Empowerment 5. Coaching 6. Employee feedback 7. Informal communication

Findings	Evaluation/Recommendations
<p>and motivate them.</p> <ul style="list-style-type: none"> ◆ Empowerment – both agree it’s important but management rated themselves 20% higher and viewed it as a strength not a weakness. The employee response indicates that the authority to make decisions is not delegated to the lowest appropriate level. ◆ Employee Feedback – they disagree if feedback is important and employees rated their managers as 28% lower. Employees feel the organization seldom solicits their opinions and when it occurs, managers don’t communicate the results of the feedback. ◆ Informal Communication – they disagree if it’s important and management also rated themselves 24% higher than their employees. In this set of questions, employees indicate that disagreements are not seen and used productively to achieve better solutions and that they are concerned about reprisal for expressing ideas and opinions. 	

Research and our experience suggest that employee perspective is more reflective of an organization’s performance than the manager’s point of view.

V. FINANCIAL MANAGEMENT REVIEW

The Financial Management Review was conducted to analyze the financial systems of the existing facilities and to ensure that effective operating policies and procedures are in place. We conducted an analysis of the Minnesota Veterans Homes financial and statistical records to ensure that appropriate financial systems and operating policies and procedures are in position to provide the Minnesota Veteran Homes Board with information for effective operations. As such, we:

1. Reviewed and analyzed current policies and procedures in place to ensure that proper controls are in effect. (Internal Controls)
2. Analyzed the financial accounting information systems in place to determine if they are producing timely, accurate reporting. The monthly reports provided to senior Management (budgets, income statement, balance sheet, statistics, narratives, etc.) were reviewed to determine if they are meeting the decision-support needs of the Organization. (Financial Reporting – Financial Statements)
3. Reviewed the budgeting process to determine if relevant information is being captured and utilized appropriately. (Budgeting Process)
4. Produced a series of financial indicators (operational benchmarks) utilizing current year-to-date financial statements, the prior two years audited financial statements and a three year budget (Benchmarking). The financial indicators were compared against industry benchmarks as appropriate.

1. Assessment of Internal Controls

Health Dimensions Group performed a limited analysis of the financial controls governing the five Minnesota Veterans Homes (collectively the “Organization”). Our methodology included reviewing various financial policies and procedures, conducting interviews with individuals interacting within the financial systems of the Organization, observations and reading the results of the Office of the Legislative Auditor’s (the “OLA”) audit reports. (See Appendix D for more detail.) Based on that methodology, we make the following observations and recommendations:

Observations:

1. The Organization has sufficient policies and procedures (the “P&Ps”) in place to ensure adequate controls over financial information. *However, it is unclear if all those P&Ps are being followed or applied.*
2. The Office of the Legislative Auditor conducts individual audits of each of the five Veterans Homes. One emphasis of the audit is internal controls. OLA noted several internal control related findings in its audits over the last few years. Those findings are noted in Appendix D.
3. We noted from our interviews with Management that the “Cost of Care” calculations are not reviewed on a monthly basis, in any detail, by the Director of Finance. We understand that, at best, a cursory review is conducted.
4. It is the perception of certain members of the Organization’s Board of Directors that internal controls are weak and in need of improvement.

Recommendations:

1. The Organization should implement and apply, at least annually, an internal audit in accordance with its own policies. We believe relying on state auditors for evaluations of internal controls is insufficient, especially since those OLA audits occur every three years.
2. The Organization should contract with a reputable accounting firm to conduct a detailed review of its internal controls. The accounting firm should have experience with Veterans Homes or other governmental healthcare entities.

3. The goal of the detailed review would be an enhanced understanding of the strengths and weaknesses of the controls and an implementation plan to maximize safeguards.
4. We recommend that a review process be established to ensure the accuracy of the “Cost of Care” calculations. This report is submitted to the Department of Veterans Affairs. At a minimum, the calculations should be certified monthly by the Director of Finance.
5. We recommend a continued strong role of the Board Finance Committee to oversee the application of these controls. The addition of an internal auditor, reporting findings directly to the Committee, would be a valuable tool for the Board.

Additional observations and recommendations regarding the Board Finance Committee follow:

We applaud the establishment of this committee; it will provide valuable oversight as time progresses. We suggest possible enhancements to the Financial Resources Committee (FRC), based on our experience with other Boards:

- ◆ A primary task of the FRC is assuring that the Organization has the necessary financial resources to satisfy its mission. In order to fulfill this responsibility, the Board needs to continuously assess current and projected revenues and expenditures.
- ◆ The committee should meet on an as-needed basis (in addition to the monthly Board meetings) depending on the timing of the tasks required.
- ◆ The intent of the committee should be to assist the Board in a financial advisory role and not as a decision-making committee. It is not the intent of the committee to partake in the day-to-day operations/decisions of Management. Some specific tasks of the committee:
 - Review the budgeting and forecasting assumptions made by Management
 - Share business and financial best practices from the private and public sectors and recommend operational efficiencies
 - Serve as an audit committee (with regard to the OLA Audit and Internal Audit) and perform the following functions:
 - Review the results of the audit
 - Assure that the audit recommendations are appropriately addressed
 - Serve as liaison between Management and auditors

- Other tasks as necessary
- ◆ The Board should assure that it has a financial expert working with the Finance Committee to monitor the following:
- Maintaining knowledge of the Organization and personal commitment to its goals and objectives
 - Understanding financial accounting
 - Serving as financial officer of the Organization and as chairperson of the Finance Committee
 - Managing, with the Finance Committee, the Board's review of and actions related to the Board's financial responsibilities
 - Working with the Chief Executive and the Chief Financial Officers to ensure that appropriate financial reports are made available to the Board on a timely basis
 - Assisting the Chief Executive or the Chief Financial Officers in preparing the annual budget and presenting the budget to the Board for approval
 - Reviewing the annual audit and answering Board members' questions about the audit

2. Financial Reporting – Financial Statements

Observations

1. The Organization produces a limited set of financial statements for Management and Board consumption. Based on our interviews, Management believes the financial information produced is sufficient to manage ongoing operations. The Board, however, believes the information it receives to be insufficient.
2. During our review of each of the facility's monthly cost of care calculations we noted that there does not appear to be consistency in the structure of the general ledger system, specifically the chart of accounts.
3. Based on our interviews, the Board is dissatisfied with the financial information received in their Board materials. Including the financial schedules referenced above should satisfy their information needs.

- ◆ The information provided to the full Board should include only the “consolidated versions” of the reports recommended above. The FRC may elect to receive all of the detail (the site specific information).
- ◆ Narrative must be included.

Recommendations:

1. The Organization should produce a more diverse set of financial statements for Management and Board use. At a minimum the individual site reports should include:

- ◆ ***Detailed revenue and expenditures statement.*** This statement should include:

- Month-to-date actual projected revenue and actual expense
- Year-to-date actual projected revenue and actual expense
- Month-to-date budgeted revenue and expense
- Year-to-date budgeted revenue and expense
- Month-to-date budget versus actual variances
- Year-to-date budget versus actual variances
- A consolidated version of the above report for the Organization as a whole

- ◆ ***Summary balance sheets.*** This statement should include:

- All items typically shown on a balance sheet (cash, receivables, etc.)
- A consolidated version of the above report for the Organization as a whole

(Note: We realize that due to the nature of the business that a full balance sheet may not be possible to produce. Nevertheless, a summary version of a balance sheet containing cash and receivables should be possible.)

- ◆ ***Detailed revenue and expenditures statement per patient day (PPD).*** This statement should include on a PPD basis:

- Month-to-date actual projected revenue and actual expense
- Year-to-date actual projected revenue and actual expense
- Month-to-date budgeted revenue and expense
- Year-to-date budgeted revenue and expense
- Month-to-date budget versus actual variances
- Year-to-date budget versus actual variances
- A consolidated version of the above report for the Organization as a whole

- ◆ **Detailed cost of care calculation.** This report should include the following for each individual facility and consolidated:
 - Monthly departmental cost of care calculation as submitted to the Department of Veteran Affairs
 - Year-to-date departmental cost of care calculation
 - The above monthly and year-to-date cost of care calculations in a per patient day format

- ◆ **FTE report.** This report should include the following for each individual facility and consolidated:
 - Summary of full-time equivalents (FTEs) by department
 - Actual departmental hours per patient day comparison to budget

- ◆ **Occupancy.** This monthly statement should include the following for each individual site and consolidated:
 - Census by day by program
 - ADC by program
 - Monthly and year-to-date resident days of care by program
 - Monthly and year-to-date admissions and discharges by program
 - Monthly and year-to-date average length of stay (ALOS) by program

- ◆ **Narrative Explanation of the Pertinent Financial Data.** This statement should include:
 - An executive summary
 - High points from all reports (what changed compared to prior months and why, explain variances from budget, etc.)

- ◆ **Other reports.** Work with the State to have the capability to run the above reports as well as other “useful” reports.

The Organization should develop a chart of accounts to be used by each of the facilities. This will ensure that similar expenses are recorded in the same account or department in all the facilities. This will allow for a more accurate and valuable comparison in the monthly reports recommended above.

- ◆ In addition to the enhanced financial information provided, the Chief Accountant (or his designee) should physically be present at all Board meetings.
- ◆ This person should present the relevant financial reports to the full board, with sufficient time allotted.
- ◆ This person should be available to answer questions after the presentation.

3. **Budgeting Process**

The Organization produces an operating budget for Management and Board consumption. The budget process, as described to us, seems adequate. Basic guidelines are promulgated from Board Office down to the individual homes. The Administrators from the homes assess their situations, develop projected occupancy schedules and prepare their staffing and expenditure needs accordingly. The Administrators send their individual budgets to the Board Office where a consolidation process takes place.

Recommendations

We believe the basic process as described to us, is adequate and similar to the processes adopted by other organizations of this type. We would, however, suggest the following modifications to enhance the budget process:

- ◆ From our discussions with Management, budgets are occupancy driven. The Administrators project occupancy for the budgetary year and calculate expenses from that projection. However, the Administrators do not attempt to factor acuity into the mix. Acuity is a major driver in developing appropriate staffing levels (hours per patient day) and staffing mix (RNs, LPNs, CNAs, etc.). We strongly recommend acuity-based budgeting.
- ◆ From our discussions with Management, budgets are routinely prepared using the previously prepared budgets as a base. An exception approach is then used by the Administrators to ready the budget for the current period. We believe there is merit to a zero-based budget approach. This is a method of budgeting in which all expenditures must be justified each new period, as opposed to only explaining the amounts requested in excess of the previous year's funding.

- ◆ From our discussions with Management, the Director of Finance does not perform a detailed review of the individual budgets submitted to him. We recommend strongly that this detailed review take place. Specifically:
 - The Director of Finance should establish submission deadlines for a “first pass” of the budgets. The dates should be strictly enforced.
 - Individual teleconferences should be held between each Administrator and the Director of Finance.
 - Based on that teleconference, the Administrators adjust their budgets where necessary.
 - A group teleconference should then be held between the Administrators and the Director of Finance. This part of the process is particularly invaluable, since each administrator will be able to impart information specific to their facility that may have applicability to other homes.
 - Budgets are finalized.
- ◆ The FRC needs an active role in the review and approval process.
- ◆ The Director of Finance should present the final budget to the Board in sufficient detail.

4. Benchmarking

We obtained each facility's cost of care calculation for the state fiscal year ended June 30, 2005 and summarized by department on a per patient day basis. Because the data were limited, we were not able to perform a full benchmarking analysis. We were, however, able to perform an analysis on many of the key direct cost and support service cost indicators.

The following is a summary of the cost per resident day for each facility and consolidated:

Minnesota Veterans Home						
Cost per Resident Day						
SFY Ended June 30, 2005						
	SFYE 6/30/2005					
	Silver Bay	Fergus Falls	Luverne	Minneapolis	Hastings	Total
	Cost Per Day	Cost Per Day	Cost Per Day	Cost Per Day	Cost Per Day	Cost Per Day
Total	236.97	204.70	208.92	203.21	108.57	188.72
Total Days of Care	26,931	30,834	30,358	144,232	56,071	288,426

The analysis above shows that the cost per day at MVH-Fergus Falls, Luverne, and Minneapolis is consistent. The MVH-Hastings facility is much lower because it is strictly domiciliary care as opposed to the more costly nursing home care. MVH-The Silver Bay cost per day is approximately 13% higher than the other facilities that provide nursing home care.

A more detailed review of the above costs was performed. The following is a summary of the cost per resident day for selected key departments for each facility and consolidated:

Minnesota Veterans Home							
Cost per Resident Day							
SFY Ended June 30, 2005							
	SFYE 6/30/2005						Benchmark
	Silver Bay	Fergus Falls	Luverne	Minneapolis	Hastings	Total	Cost Per Day
	Cost Per Day	Cost Per Day	Cost Per Day	Cost Per Day	Cost Per Day	Cost Per Day	Cost Per Day
Admin & Gen'l	24.74	25.08	32.14	32.15	28.46	29.98	23.22
Plant Operations	11.68	15.47	13.65	11.58	12.53	12.41	8.92
Housekeeping/Laundry	18.28	12.05	15.66	15.50	8.76	14.10	7.80
Dietary	28.26	24.68	24.03	19.25	12.84	19.93	15.08
Social Service	3.72	3.29	3.68	4.64	5.78	4.53	2.80
Activities	6.53	6.31	6.06	4.88	4.90	5.31	1.38
Nursing	121.57	100.93	99.50	72.94	15.94	72.19	67.14
Total Cost Per Day	236.97	204.70	208.92	203.21	108.57	188.72	
Total Days of Care	26,931	30,834	30,358	144,232	56,071	288,426	

The analysis above shows that costs in key support service departments such as plant operations, housekeeping/laundry, dietary, social services and activities therapy are well above the national averages for nursing facilities. The administration and general and nursing departments are also above the national averages. However, the data provided were not detailed enough to provide a reliable comparison. It is unclear what expenses are included in these two areas.

The above detailed cost per resident day analysis can also be used to compare the departmental cost for each of the facilities. You can see from the above that the cost per day in housekeeping/laundry, dietary and nursing is much higher at MVH-Silver Bay compared to the other facilities.

Recommendations:

Based on the above comparisons it appears that an opportunity exists to reduce costs in some of the key areas. We recommend that a more thorough analysis be performed for the departments in the above comparisons that exceed the benchmark costs per resident day to determine what is causing the variance and if any operational changes can be implemented to reduce costs.

We also recommend that the Organization implement the previous recommendations regarding the more detailed monthly reports to allow for an ongoing comparison of the departmental costs per resident day.

VI. KEY RECOMMENDATIONS

Based on the results of the Organizational Assessment, Financial Systems Review and Governance Review, the following represent our Critical Recommendations. As such, implementation of these recommendations should be highest priority.

CRITICAL RECOMMENDATIONS

1. Create an 18-month turnaround plan for Minneapolis
2. Recruit top quality Minneapolis management team ASAP (but carefully)
3. Use external experts for Mock Surveys
4. Implement changes to Minneapolis structure into smaller distinct operating units
5. Operate the Board of Directors as a governing Board - not an advisory one
6. Clarify roles and functions between Board Office Staff and Facility Administrators
7. Relocate Board Office Staff onto the Minneapolis campus
8. Establish a shared strategic agenda and priorities at the Board Level. Delegate creating an implementation plan for the MVH organization
9. More effectively utilize Board committees and possibly recruit ex-officio members
10. Establish and monitor select key performance metrics that support strategic direction of the Minnesota Veterans Homes

RECOMMENDATIONS

The following represents our overall recommendations and encompasses the critical recommendations listed above. In addition, a number of specific recommendations have been throughout this document for consideration by the Board, Board Office and facility administration.

A. MINNESOTA VETERANS HOMES-MINNEAPOLIS

1. Develop a detailed 18-month turnaround plan for the MVH-Minneapolis facility with milestones and metrics. This should also include a transition plan to facilitate Board Office Staff members on temporary assignment to MVH-Minneapolis moving back to their Board Office Staff roles as key leadership positions are filled. The turnaround plan should include key activities, timelines and responsibilities of the Board, Board Office Staff and the MVH-Minneapolis facility administrative team and should be monitored by the SRC.

Rationale for Recommendation:

- ◆ Historic regulatory issues indicate that the facility is in need of a plan that ensures the long term success of the facility relative to regulations and compliance.
 - ◆ A formal plan ensures accountability at all levels with opportunity for ongoing communication between all constituents.
 - ◆ Implementation of a well developed plan will change the culture of the organization thus reducing risk of potential quality issues in the future.
2. Recruit a seasoned top quality management team for MVH-Minneapolis as soon as possible. A stable management team is needed to assure future success at this location. Because the top two leadership positions in this high profile facility are empty, retain outside assistance with the recruiting, interviewing and assessment process. Ensure that selected candidates are a good fit to the existing culture.

Rationale for Recommendation:

- ◆ Current efforts to secure a management team have not resulted in filled positions.
- ◆ The Board and Board Office Staff do not have the depth of knowledge and skill set to ensure that the most appropriate candidates are recruited.
- ◆ An outside agency has access to a greater potential applicant pool for the positions and expertise in filling these high profile positions.

3. Use an external organization to conduct quarterly Mock Surveys of the MVH-Minneapolis facility as a means to ensure compliance during the next 12 months. While internal Mock Surveys have been conducted in the past, the recent history of citations requires more aggressive action and accountability. As a means to ensure ongoing compliance and to assist the Board Office Staff who have many responsibilities, we recommend that the outside organization conduct quarterly Mock Survey/Regulatory Compliance Reviews at the Minneapolis Veterans Home over the next twelve months.

Rationale for Recommendation:

- ◆ Board Office Staff needs support and development before they can fully take on this role.
 - ◆ Allows Board Office Staff to focus efforts on the regulatory and compliance issues at all facilities.
 - ◆ Ensures ongoing compliance and quality care using industry expertise.
 - ◆ There is a lack of accountability to implement actions based on Mock Surveys completed by the Board Office Staff.
4. Revise staffing policies at the MVH-Minneapolis site to better meet resident needs. Historically a significant number of employees (more than 100) had schedules that were specifically modified to meet the needs of employees as opposed to meeting the needs of residents. This practice should be replaced by a fair and equitable scheduling practice based on other factors including seniority and level of expertise.

Rationale for Recommendation:

- ◆ Enhances employee morale as all employees are treated equitably.
 - ◆ Results in staffing patterns that are resident focused versus employee focused.
 - ◆ Ensure consistent scheduling practices which allows for more effective management of staff.
5. After the turnaround plan is completed, we recommend a structure at MVH-Minneapolis with distinct operating units. Each operating unit would have an assigned Administrator and Assistant Director of Nursing as well as support staff in the areas of social services and therapeutic recreation. Each “service area” would function as an independent business unit with the teams of staff working together to meet the needs relevant to their

residents. Staff would have a matrix reporting structure with accountability to the facility administrator and directors as necessary.

Implement the changes to the nursing structure at the MVH-Minneapolis facility as developed by the Administrative Team as a first step in development of a new management model for the Minneapolis Veterans Home. In time, we recommend an operating structure at the Minneapolis Veterans Home with distinct operating units. Each Operating Unit would have an assigned administrator and ADON as well as support staff in the areas of social services and therapeutic recreation. Each “service area” would function as an independent business unit with the teams of staff working together to meet the needs relevant to their residents. Staff would have a matrix reporting structure with accountability to the facility administrator and directors as necessary.

Movement to a new Management Model at this time would result in significant confusion in the facility relative to roles and responsibilities as such consideration should be given to a phased implementation of a new model over the next 24 months.

Rationale for Recommendation:

- ◆ Allows for application of best practices across service areas going forward.
 - ◆ Interview and survey comments indicate that current staffing patterns have resulted in a lack of cohesion and accountability among staff.
 - ◆ Allows for more effective management and oversight of key operating areas and specialized and distinct programs and services.
 - ◆ This enables staff to develop deeper expertise in meeting needs of specific resident groups and allows the staff to develop camaraderie as they work together over time.
6. A formal program should be implemented at MVH-Minneapolis to boost employee morale and celebrate the successes of the facility. This program would serve as a pilot program for implementation in all Minnesota Veterans Homes.

Rationale for Recommendation:

- ◆ Employee morale must be enhanced if the facility is to continue to provide quality services to veterans as low employee morale will continue to result in high turnover.
- ◆ Specific procedures are available to the MVHs to address employee morale however a formalized process has not been developed to access funds.

B. ALL MINNESOTA VETERANS HOMES

Based on the results of the Organizational Assessment, we recommend the following be implemented in all facilities.

1. **Staff Union Salaries** – Although this is a long term issue, we recommend staff salaries in future union contracts be regionalized based on a cost of living index.
2. **Replacing Ineffective Employees** – Supervisors must be supported by the Minnesota Veterans Homes Board, Board Office Staff and facility management in dealing with performance problems. We recommend that MVH Board Staff, through its Human Resource function, be proactive in educating facility managers to more effectively deal with problem employees on a timely basis.
3. **Staff Training** – We recommend the Minnesota Veterans Homes Board Staff assign regional training responsibilities to facility staff. This role would provide general training on an ongoing basis and coordinate training specialists in other areas of facility operation. The regional training position would also be responsible for assisting each MVH facility in developing and monitoring an annual staff training plan.
4. **Public Affairs/Development Plan** – We recommend that each facility develop an annual public affairs/development plan utilizing the Public Affairs and Legislative Director of the MVH-Board Staff to coordinate the public affairs/development plan process. This plan would be aimed at improving communication of each facility with Veterans and the general public as well as providing a process to maximize the raising of development funds.
5. **Department Head Meetings** – We recommend that facility Department Heads from each discipline meet at least annually as a group to learn how to better share resources, learn of new methods/procedures and discuss new ideas for operation. It is also recommended that a complete and detailed agenda be developed and utilized at each meeting.

Rationale for Recommendations:

- ◆ Ensures consistency in management of all homes.
- ◆ Places the resident at the center of care.
- ◆ Ensures effective use of Board Office Staff to the greatest extent possible at the facility level for key operating areas

C. BOARD OFFICE STAFF

1. Clarify the Board Office Staff roles and accountability in relation to the Facility Administrators and Management teams. Presently we do not recommend change in the organizational structure of the Board Staff or the Management Staff of the Veterans Homes. Only through clearly defined roles and responsibilities at all levels of the Board Office Staff can the Board effectively ensure ongoing successful operations and quality. In addition, specific accountabilities serve as a measure of performance of Board Office Staff.

Rationale for Recommendation:

- ◆ Ensures that Board Office Staff are performing job duties to the level expected of the Board.
 - ◆ Allows for evaluation of Board Office Staff on an ongoing basis with opportunity for feedback from the Board.
2. Board Office Staff roles exist to provide expertise, create systems/processes and audit the effectiveness of those systems and processes developed, especially in the areas of Quality Assurance, Human Resources, Information Technology and Finance. Each Director should develop a transition plan that moves from a loose oversight model to a more centralized office model. This creates a management staff with authority to develop systems and processes while providing monitoring and oversight. We expect the Board Office staff would seek input from the Facility Administrators and their team regarding their facility requirements.

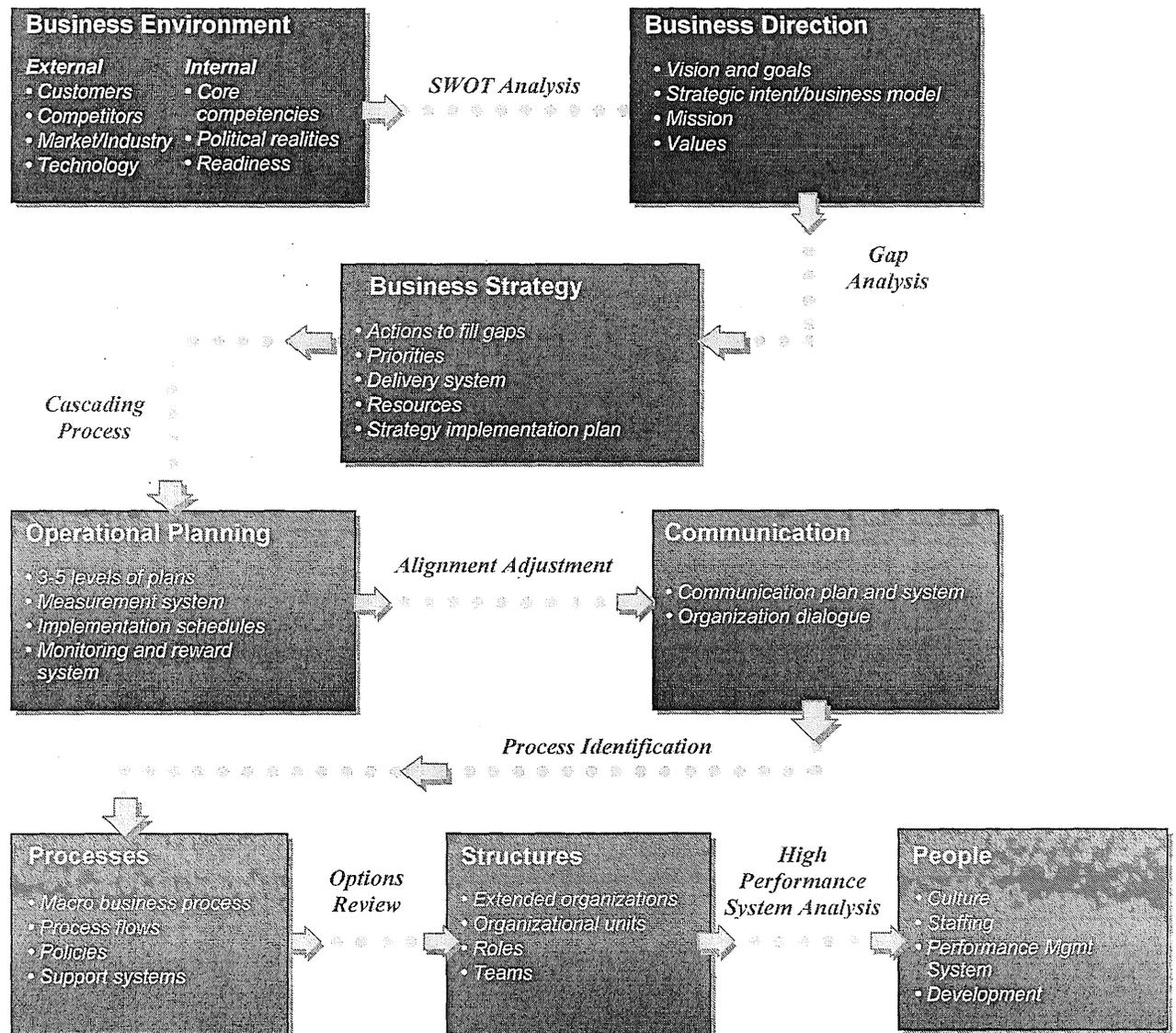
Rationale for Recommendation:

- ◆ Significant changes to the organizational structure would add a new host of issues in the Board Office while maintaining the current structure with redefined and clarified roles and responsibilities allows for development and implementation of improvement plans in a more immediate manner.
 - ◆ Centralized functions allow for more effective management of human and financial resources as standardized practices result in efficiency.
3. Develop a formal Strategic Planning Process. The lack of a clearly defined strategic plan and shared priorities for the Board Office and at the facility level is placing the Minnesota Veterans Homes at risk given the movement from institutionalization to Home and Community Based Services. The Board Office, in conjunction with the

Administrators of the Minnesota Veterans Homes, should undertake a rigorous process to create a strategic plan with detailed milestones and metrics. The Board should provide input as a key stakeholder and give final approval for the Strategic Plan.

Strategy Development and Implementation

Leadership



Rationale for Recommendation:

- ◆ The Department of Veterans Affairs is moving to Home and Community Based Services to meet the future long term care needs of Veterans versus building new facilities.
 - ◆ The Organization currently lacks clear strategic direction and the process would provide Board Office Staff and administrators with formalized strategic direction.
 - ◆ A formal planning process allows for proactive management versus reactive management, (i.e. allows for development of new programs and services).
4. The lack of trust and credibility in the relationship between some members of the Board of Directors and the Board Office needs to be addressed before any significant improvements can be made in the effectiveness of the Board Office. The Board and Board Office should meet initially to establish expectations and metrics for the Board Office. The Board would monitor progress of these activities and take action through effective communication with the Board Office. Should the relationship continue to be strained then changes in the Board Office may be necessary.

Rationale for Recommendation:

- ◆ Only through a common vision and trust can the Board and Board Office effectively fulfill their duties to the State of Minnesota and veterans.
 - ◆ Board Members and the Board Office are committed to mission and vision of the Minnesota Veterans Homes. However, continued mistrust will further erode the ability of the organization to be successful.
5. Relocate the Board Office Staff onto the MVH-Minneapolis campus. The current Board Office Staff is housed in St. Paul. The Board Office would continue to keep only a small suite of shared offices in St. Paul for meetings with key constituents or use by Board Office Staff or Board of Directors as necessary during the legislative session. The close proximity of the Board Office to the MVH-Minneapolis Campus will ensure more effective communication between the Board Office Staff and the facility and serves as effective means to monitor quality and operations of the facility on a daily basis.

Rationale for Recommendation:

- ◆ The size of the Minneapolis Veterans Home requires significant attention and participation with the Board Staff.

- ◆ Ensures more direct ongoing management oversight that ensures quality and regulatory compliance.
- ◆ Enables effective use of Human Resources professionals at the site with the greatest need.

D. BOARD OF DIRECTORS RECOMMENDATIONS

Overall, we recommend that the Minnesota Veterans Homes Board and Veterans Board Staff develop and implement a clear, shared strategy to fulfill its mission. Specific, measurable objectives and systems to support them are necessary as is information/metrics to support the strategy and mission. The Board should continue to have committees function as subsets of the Board and report to the Board at all Board meetings. Lastly the SRC should monitor progress in Minneapolis relative to securing appropriate staff and ensuring ongoing compliance. Progress should be made quickly.

1. The role of the Board of Directors is of significant importance in the ongoing operations of the Minnesota Veterans Homes. The Board has sometimes operated in an advisory capacity rather than fulfilling its governance function. We recommend the Board operate as a fully governing Board as established by State Statute to develop the strategic direction and policies to fulfill its mission. As such it is imperative that the Board provide communication and education to the Board Office Staff and all MVH employees relative to their role as a governing board.
2. Begin a Board Development program to answer questions regarding the Board's role in decision-making and the development of systems for the Board to operate effectively. New member orientation and ongoing Board development need to be part of the Board's work. Board members skill sets should be identified and utilized to the best capacity. Efforts should be made to identify potential Board members with skill sets that complement the needs of the Organization. As an ever-changing Board, it is imperative that the Board establish a formal orientation program for new Board members with roles and responsibilities. In addition, ongoing Board development will continue to cement the role of the Board will ensure implementation of strategies and mission and will foster communication between the Board and Board Office Staff.

Rationale for Recommendation:

- ◆ As a volunteer Board, individual Board members come from a variety of backgrounds and have varying degrees of expertise relative to management of a large organization.
 - ◆ For the Board to be effective, consideration needs to be given to the skill set required to serve on the Board such as:
 1. Capacity to participate in strategic planning process
 2. Ability to read, interpret and make decisions based on financial data
 3. Capacity to evaluate, select and manage people
 - ◆ Interviews indicate that new member orientation and ongoing Board member development are lacking.
3. Establish select key performance metrics that support the mission and strategic agenda based on industry standards. A number of internal and external metrics should be developed to ensure adherence to quality care and operational standards in each Veterans Home. External metrics include community stakeholder satisfaction and industry best practices. Internal metrics might include resident care indicators, financial performance, employee satisfaction or physical plant stewardship. The metrics would become a core component of each Board meeting to review the current performance of each facility. A consistent format should be developed so that information can be tracked and compared from one meeting to the next and between facilities.

Rationale for Recommendation:

- ◆ Board members expressed concern over the amount and usefulness of information provided for review.
- ◆ Allow the board to provide feedback to Facility Administrators and Board Office Staff.
- ◆ Serves as a performance evaluation tool of not only the Board, but of the Board Office and administrative teams.
- ◆ Effective management of Veterans Homes requires attention to key operating factors to ensure high quality
- ◆ The financial review revealed costs that exceed industry benchmarks and, as such, ongoing monthly comparison of cost data allows for more effective budgeting and management by administrators.

4. The Board should maintain and clarify the role of the Finance and Quality Committees. The committees should have appropriate representation from the Board, Board Office and facilities to ensure that committee goals are achieved. In addition, consideration should be given to the appointment of ex-officio members to all committees as a means to secure expertise and identify potential new board members.

Rationale for Recommendation:

- ◆ Effective use of committees will reduce the reliance on the Board as a whole and ensure key systems are developed and monitored.
- ◆ The participation of outside expertise allows the Board access individuals with significant experience to serve in advisory capacity to the Board in those areas where the Board may lack experience and expertise.
- ◆ Serves as an effective recruiting tool for potential new board members.

NEXT STEPS

Implementation of the Critical Recommendations as well as overall recommendations must be carried out in a structured, well developed manner to ensure the long term success of the Minnesota Veterans Homes.

Key next steps include the following:

1. The Board and Board Office should work together to prioritize recommendations and develop an Implementation Plan.
2. For those areas where external expertise is required to assist in implementation identify and retain qualified organizations.
3. Finalize Implementation Plan and begin Implementation.

Senate Counsel, Research,
and Fiscal Analysis

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**S.F. No. 23 - Pharmaceutical Pricing Disclosure
(Committee Engrossment)**

Author: Senator Yvonne Prettner Solon

Prepared by: Katie Cavanor, Senate Counsel (651/296-3801) *KTC*

Date: March 8, 2006

S.F. No. 23 requires drug manufacturers to disclose certain pharmaceutical pricing to the Commissioner of Human Services as a requirement for licensure under Minnesota Statutes, chapter 151.

Section 1 (151.47, subdivision 1) requires drug manufacturers to on a quarterly basis report to the Board of Pharmacy and to the Commissioner of Human Services the following pharmaceutical pricing criteria for each of their drugs: average wholesale price (AWP); wholesale acquisition cost (WAC); average manufacturer price (AMP) as defined under federal law; and best price as defined under federal law. Describes the calculation to be used to determine the AWP and WAC. Requires a detailed description of the methodology used to calculate the reported AWP, WAC, AMP, and best price be included in the report. Requires the president or chief executive officer of the manufacturer to certify to the medical assistance program on a form provided by the Commissioner of Human Services that the reported prices are accurate. States that any information reported shall be classified as nonpublic data under section 13.02, subdivision 9, but authorizes the attorney general's office or another law enforcement agency to access and obtain copies of the data and use it for law enforcement purposes.

Section 2 (151.45, subdivision 3) authorizes the attorney general to pursue penalties and remedies available under section 8.31 against any manufacturer who violates **section 1**.

Section 3 and 4 (256.957) creates a health care quality improvement account and requires any money received by the state, due errors in pharmaceutical pricing, to be deposited in this account.

Section 4 appropriates money. Requires the Board of Pharmacy to increase the licensing fee for drug manufacturers to \$275.00 per year.

KC:ssg

Consolidated Fiscal Note – 2005-06 Session

Bill #: S0023-0 Complete Date: 02/14/05

Chief Author: SOLON, YVONNE PRETTNER

Title: WHOLESAL DRUG DISTRIBUTOR REQ

Fiscal Impact	Yes	No
State	X	
Local		X
Fee/Departmental Earnings		X
Tax Revenue		X

Agencies: Human Services Dept (02/14/05)
Pharmacy Board (01/31/05)

Attorney General (01/31/05)

This table reflects fiscal impact to state government. Local government impact is reflected in the narrative only.

Dollars (in thousands)	FY05	FY06	FY07	FY08	FY09
Net Expenditures					
General Fund		122	108	108	108
Human Services Dept		122	108	108	108
Revenues					
General Fund		49	43	43	43
Human Services Dept		49	43	43	43
Net Cost <Savings>					
General Fund		73	65	65	65
Human Services Dept		73	65	65	65
Total Cost <Savings> to the State		73	65	65	65

	FY05	FY06	FY07	FY08	FY09
Full Time Equivalents					
General Fund		1.00	1.00	1.00	1.00
Human Services Dept		1.00	1.00	1.00	1.00
Total FTE		1.00	1.00	1.00	1.00

Consolidated EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: DOUG GREEN
Date: 02/14/05 Phone: 286-5618

Fiscal Note – 2005-06 Session

Bill #: S0023-0 **Complete Date:** 02/14/05

Chief Author: SOLON, YVONNE PRETTNER

Title: WHOLESALE DRUG DISTRIBUTOR REQ

Fiscal Impact	Yes	No
State	X	
Local		X
Fee/Departmental Earnings		X
Tax Revenue		X

Agency Name: Human Services Dept

This table reflects fiscal impact to state government. Local government impact is reflected in the narrative only.

Dollars (in thousands)	FY05	FY06	FY07	FY08	FY09
Expenditures					
General Fund		122	108	108	108
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
General Fund		122	108	108	108
Revenues					
General Fund		49	43	43	43
Net Cost <Savings>					
General Fund		73	65	65	65
Total Cost <Savings> to the State		73	65	65	65

	FY05	FY06	FY07	FY08	FY09
Full Time Equivalents					
General Fund		1.00	1.00	1.00	1.00
Total FTE		1.00	1.00	1.00	1.00

Bill Description: Requires pharmaceutical manufacturers to report certain pricing information to the Department of Human Services.

Assumptions While this bill requires manufacturers to supply certain drug pricing information to DHS, it does not specifically require the department to use that data to calculate reimbursement to providers. Consequently, this will have no impact on program costs. There will be an administrative cost because staff will have to somehow process, track and store the data. Assume Pharmacy Program would need 1 FTE on an ongoing basis for staff to process data and to follow-up with manufacturers as necessary. There would be only negligible systems cost to set up a database.

(Note – even if the authors of the bill assume that DHS would use the drug pricing information to establish reimbursement rates, DHS would not be able to do so given the current language of the bill. Consequently, the fiscal analysis remains the same – DHS would need 1 FTE to handle the data).

Expenditure and/or Revenue Formula

1 FTE needed for data collection and processing:

	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>
Staff Costs	122	108	108
Revenue	<u>49</u>	<u>43</u>	<u>43</u>
Net Cost to State	73	65	65

Long-Term Fiscal Considerations Would have to continue processing this data for as long as it is being sent to us.

Local Government Costs None

References/Sources

Agency Contact Name: Cody Wiberg 282-6496
FN Coord Signature: STEVE BARTA
Date: 02/03/05 Phone: 296-5685

EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: DOUG GREEN
Date: 02/14/05 Phone: 286-5618

Fiscal Note – 2005-06 Session

Bill #: S0023-0 Complete Date: 01/31/05

Chief Author: SOLON, YVONNE PRETTNER

Title: WHOLESALE DRUG DISTRIBUTOR REQ

Fiscal Impact	Yes	No
State		X
Local		X
Fee/Departmental Earnings		X
Tax Revenue		X

Agency Name: Pharmacy Board

This table reflects fiscal impact to state government. Local government impact is reflected in the narrative only.

Dollars (in thousands)	FY05	FY06	FY07	FY08	FY09
Expenditures					
-- No Impact --					
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
-- No Impact --					
Revenues					
-- No Impact --					
Net Cost <Savings>					
-- No Impact --					
Total Cost <Savings> to the State					

	FY05	FY06	FY07	FY08	FY09
Full Time Equivalent					
-- No Impact --					
Total FTE					

This bill version has no fiscal effect on our agency.

FN Coord Signature: JULI VANGSNESS

Date: 01/27/05 Phone: 617-2120

EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: DOUG GREEN

Date: 01/31/05 Phone: 286-5618

Fiscal Note – 2005-06 Session

Bill #: S0023-0 Complete Date: 01/31/05

Chief Author: SOLON, YVONNE PRETTNER

Title: WHOLESALE DRUG DISTRIBUTOR REQ

Fiscal Impact	Yes	No
State		X
Local		X
Fee/Departmental Earnings		X
Tax Revenue		X

Agency Name: Attorney General

This table reflects fiscal impact to state government. Local government impact is reflected in the narrative only.

Dollars (in thousands)	FY05	FY06	FY07	FY08	FY09
Expenditures					
-- No Impact --					
Less Agency Can Absorb					
-- No Impact --					
Net Expenditures					
-- No Impact --					
Revenues					
-- No Impact --					
Net Cost <Savings>					
-- No Impact --					
Total Cost <Savings> to the State					

	FY05	FY06	FY07	FY08	FY09
Full Time Equivalents					
-- No Impact --					
Total FTE					

This bill version has no fiscal effect on our agency.

FN Coord Signature: TERRY POHLKAMP
Date: 01/24/05 Phone: 297-1143

EBO Comments

I have reviewed this Fiscal Note for accuracy and content.

EBO Signature: KRISTI SCHROEDL
Date: 01/31/05 Phone: 215-0595



Suite 722, 444 North Capitol Street, NW, Washington, DC 20001

January 20, 2005

Senator Yvonne Prettner Solon
303 State Capitol
St. Paul, Minnesota 55155

Dear Senator Solon:

Barr Laboratories, Inc. is a leading generic pharmaceutical company, currently manufacturing and distributing nearly 100 pharmaceutical products in therapeutic categories including female healthcare, cardiovascular, oncology, anti-infective and psychotherapeutics. We are a part of the generic pharmaceutical manufacturing industry that is providing massive savings to all Minnesotans as well as to the state through Medical Assistance and the other state pharmacy assistance programs. Generic pharmaceuticals offer the same safety and effectiveness as the brand counterparts, saving consumers more than \$10 billion a year nationally. We share your concerns regarding the high cost of drugs and are doing our best to provide lower cost generic alternatives as soon as possible when a patent expires.

I am writing to you regarding SF 23, the legislation you are authoring requiring pharmaceutical manufacturers to report various pricing structures of each drug to the Minnesota Department of Human Services and to provide certification by the company president or CEO. We have a number of concerns with this legislation and encourage you to reconsider whether it will accomplish the intended purpose.

We recognize that many policy-makers find the current pricing structure of pharmaceuticals very complicated and confusing. This is an issue at the federal level; Congress and Centers for Medicaid & Medicare Services (CMS) are currently working towards developing greater consistency in drug pricing nationally. CMS is weighing many options including moving toward an Average Sales Price reporting system, and the House Energy and Commerce Committee held a hearing last month to discuss fixing the price reporting system as a part of Medicaid reform this year. The administration has made it a top priority as well. We believe that it is most appropriate for this issue to be addressed at the federal level and have been cooperating fully and eagerly with CMS, Congress and the Bush Administration in their efforts.

Despite the goal of trying to assist your Department of Human Services in identifying potentially inflated prices for rebate purposes, this legislation will instead be a reporting procedure that either a) unnecessarily duplicates federal reporting requirements, or b) creates a cumbersome price reporting system for each drug in each form and strength that identifies the price to each customer. Either scenario raises serious concerns regarding the confidentiality of our pricing among customers that

goes well beyond the needs of the Department of Human Services for identifying potential Medicaid fraud.

We are concerned that this legislation requires far more than is currently required to be reported federally. The federal reporting is not vendor specific and is not public data. This legislation does not specify whether our highly sensitive pricing data will remain completely confidential. Please keep in mind that the generic industry is a competitive marketplace. In most instances, there are multiple generic manufacturers for each drug. Consumers do not request our drugs by name – we compete based on the price we offer to our customers (such as the local pharmacies). This individual pricing information is proprietary and should remain proprietary and not be publicly available from the state. Similar concerns have been raised with the Texas law by the Generic Pharmaceutical Manufacturers Association (GPHA).

One element of your proposed legislation that does not exist federally or in any other state is the “certification” by the company president or CEO. This is not part of the federal price reporting requirements and seems to be a highly extraordinary step. Barr Laboratories, Inc., as a corporation, is diligent in reporting the required pricing information to the Federal and State governments. As an entity, we are responsible to give accurate and timely reports; a requirement for certification by our CEO is burdensome and unnecessary.

Finally, in a time of budget deficit experienced by your state, managing this information is a significant task for your Department of Human Services. In Texas, the agency hired many new staff people to administer a similar program and sort through thousands of reporting forms. We believe that there are more cost effective means to achieve your goals that will not interfere with critical program needs in the state.

In conclusion, we respect your goals but oppose state-by-state efforts for price reporting and instead support federal initiatives on price reporting and in reforming the AWP pricing system. We also have serious concerns about the competitive implications for generics if the pricing information we must report to the state is not private and confidential.

I appreciate your consideration of the concerns we have raised regarding SF 23.

Sincerely,

Jake Hansen
Vice President, Government Affairs

1 A bill for an act

2 relating to pharmacy; modifying wholesale drug
3 distributor requirements; amending Minnesota Statutes
4 2004, section 151.47, subdivision 1, by adding a
5 subdivision.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

7 Section 1. Minnesota Statutes 2004, section 151.47,
8 subdivision 1, is amended to read:

9 Subdivision 1. [REQUIREMENTS.] All wholesale drug
10 distributors are subject to the requirements in paragraphs (a)
11 to (f), and if applicable in paragraph (g).

12 (a) No person or distribution outlet shall act as a
13 wholesale drug distributor without first obtaining a license
14 from the board and paying the required fee.

15 (b) No license shall be issued or renewed for a wholesale
16 drug distributor to operate unless the applicant agrees to
17 operate in a manner prescribed by federal and state law and
18 according to the rules adopted by the board.

19 (c) The board may require a separate license for each
20 facility directly or indirectly owned or operated by the same
21 business entity within the state, or for a parent entity with
22 divisions, subsidiaries, or affiliate companies within the
23 state, when operations are conducted at more than one location
24 and joint ownership and control exists among all the entities.

25 (d) As a condition for receiving and retaining a wholesale
26 drug distributor license issued under sections 151.42 to 151.51,
27 an applicant shall satisfy the board that it has complied with
28 paragraph (g) and that it has and will continuously maintain:

29 (1) adequate storage conditions and facilities;

30 (2) minimum liability and other insurance as may be
31 required under any applicable federal or state law;

32 (3) a viable security system that includes an after hours
33 central alarm, or comparable entry detection capability;
34 restricted access to the premises; comprehensive employment
35 applicant screening; and safeguards against all forms of
36 employee theft;

37 (4) a system of records describing all wholesale drug

1 distributor activities set forth in section 151.44 for at least
2 the most recent two-year period, which shall be reasonably
3 accessible as defined by board regulations in any inspection
4 authorized by the board;

5 (5) principals and persons, including officers, directors,
6 primary shareholders, and key management executives, who must at
7 all times demonstrate and maintain their capability of
8 conducting business in conformity with sound financial practices
9 as well as state and federal law;

10 (6) complete, updated information, to be provided to the
11 board as a condition for obtaining and retaining a license,
12 about each wholesale drug distributor to be licensed, including
13 all pertinent corporate licensee information, if applicable, or
14 other ownership, principal, key personnel, and facilities
15 information found to be necessary by the board;

16 (7) written policies and procedures that assure reasonable
17 wholesale drug distributor preparation for, protection against,
18 and handling of any facility security or operation problems,
19 including, but not limited to, those caused by natural disaster
20 or government emergency, inventory inaccuracies or product
21 shipping and receiving, outdated product or other unauthorized
22 product control, appropriate disposition of returned goods, and
23 product recalls;

24 (8) sufficient inspection procedures for all incoming and
25 outgoing product shipments; and

26 (9) operations in compliance with all federal requirements
27 applicable to wholesale drug distribution.

28 (e) An agent or employee of any licensed wholesale drug
29 distributor need not seek licensure under this section.

30 (f) A wholesale drug distributor shall file with the board
31 an annual report, in a form and on the date prescribed by the
32 board, identifying all payments, honoraria, reimbursement or
33 other compensation authorized under section 151.461, clauses (3)
34 to (5), paid to practitioners in Minnesota during the preceding
35 calendar year. The report shall identify the nature and value
36 of any payments totaling \$100 or more, to a particular

1 practitioner during the year, and shall identify the
2 practitioner. Reports filed under this provision are public
3 data.

4 (g) Manufacturers shall, on a quarterly basis, report by
5 National Drug Code the following pharmaceutical pricing criteria
6 to the commissioner of human services for each of their drugs:
7 average wholesale price, wholesale acquisition cost, average
8 manufacturer price as defined in United States Code, title 42,
9 chapter 7, subchapter XIX, section 1396r-8(k), and best price as
10 defined in United States Code, title 42, chapter 7, subchapter
11 XIX, section 1396r-8(c)(1)(C). The calculation of average
12 wholesale price and wholesale acquisition cost shall be the net
13 of all volume discounts, prompt payment discounts, chargebacks,
14 short-dated product discounts, cash discounts, free goods,
15 rebates, and all other price concessions or incentives provided
16 to a purchaser that result in a reduction in the ultimate cost
17 to the purchaser. When reporting average wholesale price,
18 wholesale acquisition cost, average manufacturer price, and best
19 price, manufacturers shall also include a detailed description
20 of the methodology by which the prices were calculated. When a
21 manufacturer reports average wholesale price, wholesale
22 acquisition cost, average manufacturer price, or best price, the
23 president or chief executive officer of the manufacturer shall
24 certify to the Medicaid program, on a form provided by the
25 commissioner of human services, that the reported prices are
26 accurate. The commissioner of human services may use the prices
27 reported under this section in determining reimbursement
28 payments under section 256B.0625, subdivision 13e. Any
29 information reported under this paragraph shall be classified as
30 nonpublic data under section 13.02, subdivision 9.
31 Notwithstanding the classification of data in this paragraph and
32 subdivision 2, the Minnesota Attorney General's Office, the
33 federal Centers for Medicare and Medicaid Services, or another
34 law enforcement agency may access and obtain copies of the data
35 required under this paragraph and use that data for law
36 enforcement purposes.

1 Sec. 2. Minnesota Statutes 2004, section 151.47, is
2 amended by adding a subdivision to read:

3 Subd. 3. [PENALTIES AND REMEDIES.] The attorney general
4 may pursue the penalties and remedies available to the attorney
5 general under section 8.31 against any manufacturer who violates
6 subdivision 1, paragraph (g).

7 Sec. 3. [256.957] [HEALTH CARE QUALITY IMPROVEMENT
8 ACCOUNT.]

9 A health care quality improvement account is established in
10 the general fund.

11 Sec. 4. [REBATE REVENUE RECAPTURE.]

12 Any money received by the state from a drug manufacturer
13 due to errors in the pharmaceutical pricing used by the
14 manufacturer in determining the prescription drug rebate shall
15 be deposited in the health care quality improvement account
16 established in Minnesota Statutes, section 256.957.

17 Sec. 5. [APPROPRIATIONS.]

18 (a) The Board of Pharmacy shall increase the licensing fee
19 for drug manufacturers required under Minnesota Statutes,
20 sections 151.42 to 151.51, by \$275 per year beginning July 1,
21 2005.

22 (b) On July 1, 2005, and each fiscal year thereafter, the
23 commissioner of finance shall transfer \$73,000 from the state
24 government special revenue fund to the general fund.

25 (c) \$73,000 is appropriated in fiscal year 2006 and \$73,000
26 in fiscal year 2007 from the general fund to the commissioner of
27 human services for the data received under Minnesota Statutes,
28 section 151.47, subdivision 1, paragraph (g).

1 Senator moves to amend S.F. No. 23 as follows:

2 Page 1, delete line 11 and insert "to (f), and if
3 applicable in paragraph (g)."

4 Page 4, after line 14, insert:

5 "Sec. 3. [256.957] [HEALTH CARE QUALITY IMPROVEMENT
6 ACCOUNT.]

7 A health care quality improvement account is established in
8 the general fund.

9 Sec. 4. [REBATE REVENUE RECAPTURE.]

10 Any money received by the state from a drug manufacturer
11 due to errors in the pharmaceutical pricing used by the
12 manufacturer in determining the prescription drug rebate shall
13 be deposited in the health care quality improvement account
14 established in Minnesota Statutes, section 256.957."

15 Amend the title accordingly

1 Senator moves to amend S.F. No. 23 as follows:

2 Page 4, line 2, after the period, insert "The commissioner
3 of human services may use the prices reported under this section
4 in determining reimbursement payments under section 256B.0625,
5 subdivision 13e."

6 Page 4, line 5, after "Office" insert ", the federal
7 Centers for Medicare and Medicaid Services"

8 Page 4, after line 14, insert:

9 "Sec. 3. [APPROPRIATIONS.]

10 (a) The Board of Pharmacy shall increase the licensing fee
11 for drug manufacturers required under Minnesota Statutes,
12 sections 151.42 to 151.51, by \$275 per year beginning July 1,
13 2005.

14 (b) On July 1, 2005, and each fiscal year thereafter, the
15 commissioner of finance shall transfer \$73,000 from the state
16 government special revenue fund to the general fund.

17 (c) \$73,000 is appropriated in fiscal year 2006 and \$73,000
18 in fiscal year 2007 from the general fund to the commissioner of
19 human services for the data received under Minnesota Statutes,
20 section 151.47, subdivision 1, paragraph (g)."

Senator Solon introduced--

S.F. No. 23: Referred to the Committee on Health and Family Security.

1 A bill for an act

2 relating to pharmacy; modifying wholesale drug
3 distributor requirements; amending Minnesota Statutes
4 2004, section 151.47, subdivision 1, by adding a
5 subdivision.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

7 Section 1. Minnesota Statutes 2004, section 151.47,
8 subdivision 1, is amended to read:

9 Subdivision 1. [REQUIREMENTS.] All wholesale drug
10 distributors are subject to the requirements in paragraphs (a)
11 to ~~(f)~~ (g).

12 (a) No person or distribution outlet shall act as a
13 wholesale drug distributor without first obtaining a license
14 from the board and paying the required fee.

15 (b) No license shall be issued or renewed for a wholesale
16 drug distributor to operate unless the applicant agrees to
17 operate in a manner prescribed by federal and state law and
18 according to the rules adopted by the board.

19 (c) The board may require a separate license for each
20 facility directly or indirectly owned or operated by the same
21 business entity within the state, or for a parent entity with
22 divisions, subsidiaries, or affiliate companies within the
23 state, when operations are conducted at more than one location
24 and joint ownership and control exists among all the entities.

25 (d) As a condition for receiving and retaining a wholesale

1 drug distributor license issued under sections 151.42 to 151.51,
2 an applicant shall satisfy the board that it has complied with
3 paragraph (g) and that it has and will continuously maintain:

4 (1) adequate storage conditions and facilities;

5 (2) minimum liability and other insurance as may be
6 required under any applicable federal or state law;

7 (3) a viable security system that includes an after hours
8 central alarm, or comparable entry detection capability;
9 restricted access to the premises; comprehensive employment
10 applicant screening; and safeguards against all forms of
11 employee theft;

12 (4) a system of records describing all wholesale drug
13 distributor activities set forth in section 151.44 for at least
14 the most recent two-year period, which shall be reasonably
15 accessible as defined by board regulations in any inspection
16 authorized by the board;

17 (5) principals and persons, including officers, directors,
18 primary shareholders, and key management executives, who must at
19 all times demonstrate and maintain their capability of
20 conducting business in conformity with sound financial practices
21 as well as state and federal law;

22 (6) complete, updated information, to be provided to the
23 board as a condition for obtaining and retaining a license,
24 about each wholesale drug distributor to be licensed, including
25 all pertinent corporate licensee information, if applicable, or
26 other ownership, principal, key personnel, and facilities
27 information found to be necessary by the board;

28 (7) written policies and procedures that assure reasonable
29 wholesale drug distributor preparation for, protection against,
30 and handling of any facility security or operation problems,
31 including, but not limited to, those caused by natural disaster
32 or government emergency, inventory inaccuracies or product
33 shipping and receiving, outdated product or other unauthorized
34 product control, appropriate disposition of returned goods, and
35 product recalls;

36 (8) sufficient inspection procedures for all incoming and

1 outgoing product shipments; and

2 (9) operations in compliance with all federal requirements
3 applicable to wholesale drug distribution.

4 (e) An agent or employee of any licensed wholesale drug
5 distributor need not seek licensure under this section.

6 (f) A wholesale drug distributor shall file with the board
7 an annual report, in a form and on the date prescribed by the
8 board, identifying all payments, honoraria, reimbursement or
9 other compensation authorized under section 151.461, clauses (3)
10 to (5), paid to practitioners in Minnesota during the preceding
11 calendar year. The report shall identify the nature and value
12 of any payments totaling \$100 or more, to a particular
13 practitioner during the year, and shall identify the
14 practitioner. Reports filed under this provision are public
15 data.

16 (g) Manufacturers shall, on a quarterly basis, report by
17 National Drug Code the following pharmaceutical pricing criteria
18 to the commissioner of human services for each of their drugs:
19 average wholesale price, wholesale acquisition cost, average
20 manufacturer price as defined in United States Code, title 42,
21 chapter 7, subchapter XIX, section 1396r-8(k), and best price as
22 defined in United States Code, title 42, chapter 7, subchapter
23 XIX, section 1396r-8(c)(1)(C). The calculation of average
24 wholesale price and wholesale acquisition cost shall be the net
25 of all volume discounts, prompt payment discounts, chargebacks,
26 short-dated product discounts, cash discounts, free goods,
27 rebates, and all other price concessions or incentives provided
28 to a purchaser that result in a reduction in the ultimate cost
29 to the purchaser. When reporting average wholesale price,
30 wholesale acquisition cost, average manufacturer price, and best
31 price, manufacturers shall also include a detailed description
32 of the methodology by which the prices were calculated. When a
33 manufacturer reports average wholesale price, wholesale
34 acquisition cost, average manufacturer price, or best price, the
35 president or chief executive officer of the manufacturer shall
36 certify to the Medicaid program, on a form provided by the

1 commissioner of human services, that the reported prices are
2 accurate. Any information reported under this paragraph shall
3 be classified as nonpublic data under section 13.02, subdivision
4 9. Notwithstanding the classification of data in this paragraph
5 and subdivision 2, the Minnesota Attorney General's Office or
6 another law enforcement agency may access and obtain copies of
7 the data required under this paragraph and use that data for law
8 enforcement purposes.

9 Sec. 2. Minnesota Statutes 2004, section 151.47, is
10 amended by adding a subdivision to read:

11 Subd. 3. [PENALTIES AND REMEDIES.] The attorney general
12 may pursue the penalties and remedies available to the attorney
13 general under section 8.31 against any manufacturer who violates
14 subdivision 1, paragraph (g).

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**MULTISTATE REVIEW OF
MEDICAID DRUG REBATE
PROGRAMS**



**Daniel R. Levinson
Inspector General**

**JULY 2005
A-06-03-00048**

EXECUTIVE SUMMARY

BACKGROUND

Drug Rebate Program

The Omnibus Budget Reconciliation Act of 1990 established the Medicaid drug rebate program to allow Medicaid to receive pricing benefits commensurate with its position as a high-volume purchaser of prescription drugs. The drug manufacturers, the Centers for Medicare & Medicaid Services (CMS), and the States share responsibility for the program.

Previous Office of Inspector General Review of Medicaid Drug Rebate Program

In June 1993, the Office of Inspector General issued a report entitled "Review of Management Controls Over the Medicaid Prescription Drug Rebate Program" (A-06-92-00029). The review, conducted in eight randomly selected States, determined that CMS had not ensured that States had established proper accountability and controls over the billing and collection of drug rebates and drug rebate program funds. We also noted that CMS was unable to develop a nationwide total of the uncollected portion of Medicaid drug rebates because States were required to report only drug rebates collected. Subsequent to this review, CMS established a method designed to collect a nationwide total of the uncollected portion of Medicaid drug rebates.

OBJECTIVE

Our objective was to determine whether States had established adequate accountability and internal controls over their Medicaid drug rebate programs.

SUMMARY OF FINDINGS

Audits in 49 States and the District of Columbia¹ found that only 4 States had no weaknesses in accountability and internal controls over their drug rebate programs. For the remaining 45 States and the District of Columbia, we identified weaknesses. Federal regulations (45 CFR § 74.21(b)(3))² required that financial management systems provide for effective control over and accountability for all funds, property, and other assets.

Although accountability had improved since our 1993 report, improvements were needed in most States in the areas listed below. (See Appendix A for a summary of significant findings by State.)

¹Arizona does not operate a drug rebate program. See Appendix B for a list of individual reports.

²Subsequent to our audit, the financial management systems requirements were transferred under 45 CFR § 92.20(b)(3).

- unreliable information submitted to CMS on the Medicaid Drug Rebate Schedule (Form CMS 64.9R) (37 States),
- improper accounting for interest on late rebate payments (27 States),
- an inadequate rebate collection system (17 States),
- an inadequate dispute resolution and collection process (15 States), and
- other significant problems (13 States).

These weaknesses occurred primarily because the States did not have adequate policies, procedures, and controls over their drug rebate programs. Some States did not have adequate staff resources and/or sufficiently detailed collection systems to monitor drug rebate collections. In addition, we believe that frequently changing unit rebate amounts, as well as \$0 unit rebate amounts that CMS transmitted to the States, added to the States' administrative burden and contributed to the inaccuracy of the rebate collection systems.

As a result, States lacked adequate assurance that all drug rebates due the States were properly recorded and/or collected. Additionally, CMS did not have reliable information to properly monitor the drug rebate program.

RECOMMENDATIONS

We recommend that CMS:

- reemphasize the requirement that States submit accurate and reliable information on Form CMS 64.9R and
- emphasize to States their need to place a priority on their billing and collecting of drug rebates.

CMS agreed with our recommendations.

APPENDIX A

SIGNIFICANT FINDINGS BY STATE

Column 1 = Unreliable information submitted on CMS Form 64.9R
 Column 2 = Improper accounting for interest on late rebate payments
 Column 3 = Inadequate rebate collection system
 Column 4 = Inadequate dispute resolution and collection process
 Column 5 = Inadequate tracking of \$0 unit rebate amounts
 Column 6 = Inadequate controls over writeoffs and adjustments
 Column 7 = Improper segregation of duties

State	Columns						
	1	2	3	4	5	6	7
Alabama		X		X			
Alaska	X	X	X				X
Arkansas	X	X					
California	X		X	X			
Colorado	X				X	X	
Connecticut	X						
Delaware	X						
District of Columbia	X						
Florida	X	X		X			
Georgia	X					X	
Hawaii	X	X	X	X			
Idaho	X		X	X		X	X
Illinois ¹							
Indiana	X						
Iowa	X	X	X				
Kansas	X	X	X				
Kentucky	X						
Louisiana	X						
Maine	X	X		X			
Maryland ¹							
Massachusetts	X	X					
Michigan	X						
Minnesota ¹							
Mississippi		X					
Missouri	X	X					
Montana	X		X	X	X		
Nebraska	X	X	X				
Nevada		X	X	X			
New Hampshire	X	X					
New Jersey	X	X					
New Mexico	X	X	X	X			X
New York	X	X	X	X			
North Carolina ¹							
North Dakota					X		
Ohio		X					
Oklahoma	X		X				
Oregon	X	X	X				X
Pennsylvania	X	X	X	X			
Rhode Island	X			X			
South Carolina	X	X					
South Dakota	X	X			X	X	
Tennessee	X						
Texas		X	X	X		X	X
Utah	X	X	X		X		
Vermont		X					
Virginia ²							
Washington		X		X		X	X
West Virginia	X			X			
Wisconsin	X	X					
Wyoming	X		X		X		
TOTAL	37	27	17	15	6	6	6

¹ No findings reported in Illinois, Maryland, Minnesota, or North Carolina.

² Virginia had only one minor issue in its report that we did not include in this review.

Statement



Statement in Opposition to Minnesota SF 23 Regarding Disclosure of Proprietary Pharmaceutical Price Information

Position: PhRMA opposes the reporting of proprietary pharmaceutical pricing information. We respectfully oppose SF 23 because the legislation would require disclosure to the state of confidential pharmaceutical pricing information and would increase health care costs in Minnesota.

Pricing Information

PhRMA understands that many legislators are concerned about pharmaceutical pricing data, most of which is proprietary and therefore confidential. Some pricing information is public. One or more drug information services, such as First Data Bank, publish some prices, including the average wholesale price (AWP). Because this information is public and is compiled by these outside groups, many manufacturers might not actually calculate the AWP. Moreover, most state health and Medicaid departments already receive this information from these public sources already available.

For the most part, proprietary information is that which a company [in *any* industry] keeps confidential, because revealing it could effect negotiations with purchasers or put the firm at a disadvantage in competition with other [drug manufacturers]. This is recognized by federal law and policy makers to be proprietary and therefore protected by trade secrets law.

Aside from negotiated contract prices with private purchasers, other price information that is considered proprietary by Congress includes the Average Manufacturer Price (AMP), which is the average price a manufacturer charges the retail pharmacies; the Medicaid "best price"; as well as other government-purchaser prices. Pricing information reported to the federal government under the federal Medicaid statute is protected by a strict confidentiality/non-disclosure clause in the law (42 U.S.C. 1396r-8(b)(3)(D)), under which federal employees are even restricted from sharing AMP with one another, except for specific purposes. Additionally, other prices negotiated for the Public Health Service and other government agencies are subject to the standard contract confidentiality clause.

While SF 23 attempts to keep this information confidential, the more this information is reported, the more it risks being disclosed to the general public. A trade secret is "any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others." *Restatement (Third) of Unfair Competition § 39 (1995)*. The definition includes compilations of data, pricing, marketing techniques, and the identity and requirements of customers. At least forty-one states have statutes that protect trade secrets. In other states, the courts recognize non-technical trade secrets as legally protected property rights. Additionally, such trade secret information is a form of property protected by the U.S. Constitution.

The federal law permits manufacturers to seek damages for unwarranted and illegal disclosure of trade secret information. This qualifies as a “taking” of property under the U.S. Constitution and those violated can seek compensation.

Administrative Costs

The reporting requirement is not necessarily imposed for any delineated reason in the legislation. The federal government already requires reporting of the AMP under the Medicaid law for the purposes of administering the Medicaid rebate program and the necessary information is disseminated to the states. The State of Minnesota should not needlessly require reporting. This legislation singles out pharmaceutical manufacturers. This is particularly true when part of the data sought by the State would be public information that is compiled by outside firms, which states already obtain for their Medicaid pharmacy reimbursement. Legislators should ask what true purpose does the state have in obtaining this information. In a time when most people are concerned about rising prescription drug expenditures, PhRMA believes legislators should ask why the State of Minnesota is attempting to increase administrative costs on manufacturers, which could be passed on to consumers in the form of price increases.

For these reasons, PhRMA respectfully opposes SF 23 and urges the Minnesota Legislature to oppose the legislation as well.

The Pharmaceutical Research and Manufacturers of America (PhRMA) represents the country's leading pharmaceutical research and biotechnology companies, which are devoted to inventing medicines that allow patients to live longer, healthier, and more productive lives. PhRMA members invested an estimated \$33.2 billion in 2003 in discovering and developing new medicines. PhRMA companies are leading the way in the search for new cures.