Department of Human Services

Colorado Veterans Community Living Centers

Performance Audit

February 2025

2452P

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REPORT NUMBER 2452P

February 3, 2025

Members of the Legislative Audit Committee,

This report contains the results of a performance audit of the Department of Human Services' Veterans Community Living Centers. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department.

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Director
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Report Highlights

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Key Concern

The Veterans Community Living Centers (VCLCs) operations are not fiscally sustainable based on existing operating revenues, expenditures, and patient census.

Key Findings

- The VCLCs did not achieve resident census levels to keep the VCLCs self-sustaining for Fiscal Years 2022 through 2024. Since 2020, the average daily resident census as a percentage of total capacity has declined by about 17 percent, from 84 percent of capacity in Fiscal Year 2020 to 67 percent of capacity in Fiscal Year 2024.
- The Department of Human Services' Division of VCLCs, which oversees the operations of the VCLCs, utilized outdated payor rates when preparing the VCLCs' Fiscal Year 2024 budget. Consequently, the Division did not have crucial details regarding how changes in rates affected revenue estimates.
- VCLC personnel-related costs increased by about 26 percent between Fiscal Years 2019 and 2024, while the resident census declined by approximately 21 percent over the same period. The Division and VCLCs have not developed processes to accurately forecast the resident census, including processes for evaluating historical levels of patient acuity and census, and the staff needed to meet federal and state per-patient-day staffing requirements.
- The VCLCs consider their geographic location and the demographics of the surrounding area during the budgeting process; however, these factors are not tied to resident census targets that ensure each VCLC is self-sufficient.

Background

- Colorado has five VCLCs under the control and supervision of the Department, four of which are directly operated by the Department.
- Eligible residents must be an honorably discharged veteran; a spouse, widow, or widower of an honorably discharged veteran; or a Gold Star parent of a child who died while serving in the U.S. armed forces.
- The VCLCs are considered to be enterprises under the Taxpayer's Bill of Rights and should be self-sustaining.

Recommendations Made

6

Responses

Agree: **5**

Partially Agree: **1**

Disagree: **0**

Chapter 1: Overview of the Colorado Veterans Community Living Centers

The State owns five Veterans Community Living Centers, which are under the control and supervision of the Department of Human Services (the Department), in accordance with Section 26-12-201(4) of the Colorado Revised Statutes (C.R.S.). The Veterans Community Living Centers are situated in five distinct locations across Colorado, as noted below.

- Bruce McCandless Veterans Community Living Center is located in Florence.
- Veterans Community Living Center at Fitzsimons is located in Aurora.
- Veterans Community Living Center at Homelake is located in Monte Vista.
- Veterans Community Living Center at Rifle is located in Rifle.
- Spanish Peaks Veterans Community Living Center is located in Walsenburg.

The Department's Division of Veterans Community Living Centers (Division), which is located within the Office of Adult, Aging, and Disability Services, oversees the Veterans Community Living Centers. The Division has a total of 5 full-time equivalent staff (FTE), which includes a director, a deputy director, and a clinical operations director who oversees the Living Centers. The Division is responsible for maintaining the facility buildings, administering any grants or gifts given to the facilities, and submitting annual budgets for each facility. Statute [Section 21-12-107(2), C.R.S.] requires each Living Center to have a nursing home administrator and additional staff, including medical staff, necessary to provide services. The State Veterans Community Living Centers must operate in accordance with all federal requirements governing veterans' nursing homes in order to maintain certification by the U.S. Department of Veterans Affairs (VA). Certification by the U.S. Department of Veterans Affairs is crucial for veterans living centers as it ensures high-quality care through adherence to rigorous standards, compliance with federal regulations, continuous oversight, access to essential funding, and fosters trust and assurance among veterans and their families.

According to both federal and state requirements, in order for a person to be eligible to be a resident at a Veterans Community Living Center, they must be an honorably discharged veteran; a spouse, widow, or widower of an honorably discharged veteran; or a Gold Star parent of a child

who died while serving in the U.S. armed forces. An eligible person does not need to be a Colorado resident. Of these different types of eligible residents, at least 75 percent must be veterans, with the remainder being veterans' family.

The Veterans Community Living Centers offer a variety of long-term care and supportive living services, as outlined in the bullets below. They are required to follow federal Centers for Medicare and Medicaid Services (CMS) regulations and standards that apply to all licensed skilled nursing facilities and are subject to CMS inspections. CMS regulations and inspections tend to focus on safety in the facilities, quality of care, and infection prevention.

- Long-term Care: This includes skilled nursing care; speech, physical and occupational therapy; social activities; and assistance with bathing, dressing, and other daily activities.
- Short-term Rehabilitation: Temporary care for individuals who can eventually return home following rehabilitation services.
- Memory Care: Specialized care for individuals with dementia and other memory-related maladies.
- Domiciliary Cottages: Similar to assisted living, these are available at the Homelake Living Center, providing a more independent living environment with assistance as needed.
- Respite Care: Short-term stays to provide relief for homecare providers.
- End-of-Life/Hospice Services: Comfort-oriented care for residents in their final stages of life.

The Living Centers

The Veterans Community Living Centers are located in Aurora (referred to as Fitzsimons), Florence (referred to as Bruce McCandless), Monte Vista (referred to as Homelake), Rifle, and Walsenburg (referred to as Spanish Peaks).

The Division directly operates four of the Veterans Community Living Centers – Fitzsimons, Bruce McCandless, Homelake, and Rifle. The Department contracts with the Huerfano County Hospital District (the District) to manage and staff Spanish Peaks, with one full-time-equivalent (FTE) state employee who oversees the contract.

This audit covered only the four Veterans Community Living Centers operated directly by the Division. As such, throughout the report, references to the "Living Centers" mean these four state-operated Living Centers.

As of June 30, 2024, the four state-operated Living Centers have the capacity to serve up to a total of 484 residents, as detailed in the following exhibit. State personnel at these Living Centers total 482 FTE staff. The exhibit below includes resident capacity, staffing, and services data for each of the Living Centers.

Exhibit 1 – Colorado Veterans Community Living Centers' Capacity, Staffing, and Services

Living Center	Capacity as of June 2024	FTE	Services
Bruce McCandless	105	106	Long-term care, short-term rehabilitation, memory care, respite care, hospice care
Fitzsimons	180	202	Long-term care, short-term rehabilitation, memory care, hospice care
Homelake	110	80	Homelake has a main skilled nursing facility (SNF) that provides long-term care, short-term rehabilitation, memory care, respite care, and hospice care. It also has separate domiciliary cottages for independent living with limited assistance, such as nursing, medication, and meal management.
Rifle	89	94	Long-term care, short-term rehabilitation, memory care, respite care, hospice care
Total	**484**	**482**	

Source: Created by MGT from data provided by the Division

Fiscal Overview

Pursuant to Section 26-12-110, C.R.S., the Living Centers are considered enterprises under Section 20 of Article X of the State Constitution, known as the Taxpayer's Bill of Rights (TABOR). Enterprises are government-owned businesses that receive revenues in return for the provision of a good or service and derive less than 10 percent of their annual revenue from state or local government sources combined. The Living Centers operate on a July 1 through June 30 fiscal year. The Division is responsible for ensuring that the Living Centers generate enough revenue to support their operations and administration and, as such, function as self-sustaining entities. Section 26-12-107(3), C.R.S., requires the Living Centers to "be managed as a group by the state Department unless the Department contracts for the management of a veterans center ..." Therefore, the Division manages the four state-operated Living Centers as a single entity. In this

manner, if one or more of the Living Centers is not able to generate enough revenue within the year to be self-sufficient, the revenue from the other Living Centers may be utilized to cover those losses. Because the Department contracts with Huerfano County to manage Spanish Peaks, that Living Center is a part of the Huerfano County Hospital District enterprise.

The Living Centers are funded primarily from cash funds, which come from private-pay residents for their room and board, as well as federal funds through Medicare, Medicaid, and the Veterans Administration (VA). The Living Centers charge and receive "per diem" amounts for each resident from federal and private-pay sources. For Medicare and the VA, the federal government sets the per-diem rates. For Medicaid, the per-diem rates are set by the federal and state governments, jointly. For private pay residents, each Living Center sets its own rates, with the Division's approval.

A small proportion of funding for the Living Centers is from state and local funds, which may not exceed 10 percent of their total revenue in order for the Living Centers to maintain their TABOR-exempt enterprise status. These funds can be used to cover operating expenses such as staffing, utilities, and maintenance. For Fiscal Years 2019 through 2024, the Division received, on average, approximately $3.1 million from state and local funds each year for the Living Centers. The annual funding from state and local sources for the six-year period represents from 1.46 to 7.84 percent of the annual revenue the Living Centers generated, meaning the 10 percent limitation was not exceeded, and the Living Centers maintained their enterprise status under TABOR.

Exhibit 2 – State and Local Funding Percentage of the Colorado Veterans Community Living Centers' Total Revenue

Fiscal Year	State and Local Funding as a % of Operating Revenue
2019	2.11%
2020	5.44%
2021	1.89%
2022	7.84%
2023	6.41%
2024	1.46%

Source: Provided by the Department from analysis performed on data extracted from the Colorado Operations Resource Engine (CORE)

In Fiscal Year 2024, the Living Centers' collective revenues, as a percentage by source, were as follows:

- Federal Fund – VA per diem - 60%
- Cash Fund[1] – 39%
- General Fund – 1%

As shown in Exhibit 3, the net operating results (revenue minus expenses) of the Living Centers significantly declined during the COVID-19 pandemic[2]. This downturn was attributable to several factors, including reduced occupancy rates.

Exhibit 3 – Colorado Veterans Community Living Centers' Net Operating Results*

Living Centers	Fiscal Year 2019	Fiscal Year 2020	Fiscal Year 2021	Fiscal Year 2022	Fiscal Year 2023	Fiscal Year 2024**
Bruce McCandless	$3,167,451	$4,844,463	$4,101,492	($1,966,537)	($3,762,898)	($1,524,762)
Fitzsimons	5,691,737	7,911,891	2,709,723	(2,349,451)	(4,078,326)	1,066,167
Homelake	347,109	1,235,852	861,480	(1,279,835)	(1,303,919)	345,897
Rifle	1,125,535	2,437,567	720,967	(1,957,011)	(1,247,059)	(275,449)
Total	**$10,331,832**	**$16,429,773**	**$8,393,662**	**($7,552,834)**	**($10,392,202)**	**($388,148)****

Source: Created by MGT from data provided by the Division
*-Net Operating results are determined by calculating revenue minus expenses.
**-The Fiscal Year 2024 amounts are not final as the final adjusted financial data was not yet available at the time of this audit.
***-Homelake Skilled Nursing Facility.

Audit Scope, Objectives, and Methodology

The Colorado Office of the State Auditor (State Auditor) contracted with MGT to conduct this performance audit of the Colorado Veterans Community Living Centers (Living Centers). The scope of this audit included the activities of the four state-operated Living Centers. We conducted this audit from July 2024 through December 2024 in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and

[1] Cash funds include private pay, patient payment, payment from third party insurance company, Medicare A and Medicare B.
[2] The World Health Organization (WHO) declared the end of the public health emergency status for COVID-19 on May 5, 2023.

conclusions based on our audit objectives. We believe that the evidence obtained and described below in the report provides a reasonable basis for our findings and conclusions based on our audit objectives. We appreciate the cooperation provided by the Department of Human Services' Division of Veterans Community Living Centers, and the Living Centers during the course of this audit.

The key objectives of the audit were to assess whether/how the Division has done the following:

- Determined resident census goals for each Living Center as part of the budgeting process to ensure that each Living Center generates enough revenue to be self-sustaining.
- Incorporated differences in reimbursement rates, based on the mix of residents being cared for at any given time, into the budgeting process for each Living Center to ensure that each Living Center is generating enough revenue to be self-sustaining.
- Evaluated the staffing of the Living Centers to balance the need to retain qualified staff to provide the care needed with the declining census numbers.
- Considered the demand for residential care services in the geographic areas the Living Centers are located in as part of its budgeting process to ensure that each Living Center is generating enough revenue to be self-sustaining and developed strategies for increasing that demand.

Our audit methodology included the selection and examination of transactions and records occurring during the period of July 2018 through June 2024 (Fiscal Years 2019 through 2024). Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit, by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

This audit was designed to identify, for those areas included within the scope of the audit, weaknesses in management's internal controls significant to our audit objectives; instances of noncompliance with applicable laws, rules, regulations, contracts, grant agreements, and other

guidelines; and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and results of our audit; obtaining an understanding of the program, activity, or function; identifying and evaluating internal controls significant to our audit objectives; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

In conducting our audit, we:

- Reviewed applicable laws, rules, Department and Division policies and procedures, and other guidelines, and interviewed Division and Living Center personnel to obtain an understanding of the administration of revenues and expenditures and how the Living Centers operate.
- Examined the Living Centers' census goals and operating budgets for Fiscal Years 2019 through 2024 to determine if the census goals established by the Living Centers were appropriate to ensure that each Living Center generates enough revenue to be self-sustaining.
- Evaluated the accuracy and reasonableness of the Fiscal Year 2024 operating budget for each Living Center to determine if the Department incorporated differences in reimbursement rates based on client mix and utilized the correct reimbursement rates in preparing the budgets.
- Conducted an analysis of census data and personnel expenditures to determine if personnel expenditures changed proportionately with changes in Living Centers census counts.

- Gained an understanding of the geographic areas of each Living Center, competing nursing homes and similar living centers in the surrounding areas, and veterans living in the areas surrounding the Living Centers.
- Evaluated census goals and operating budgets for Fiscal Years 2019 through 2024 to determine if the Division is considering the demand for residential care in the geographic locations of each Living Center in determining whether the Living Centers can generate sufficient revenue to sustain operations.
- Evaluated the Division and Living Centers' efforts to increase public awareness of the Living Centers to determine if the efforts appeared appropriate to aid in increasing the Living Centers' census.
- Prepared an analysis utilizing selected financial ratios of each Living Center's financial position for Fiscal Years 2019 through 2024 to identify trends in financial position, the potential for each Living Center to be self-sustaining, and the overall financial position of the Living Centers.
- Communicated with officials on an interim basis to ensure the timely resolution of issues involving controls and noncompliance.
- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.

Chapter 2: Fiscal Sustainability

Pursuant to Section 26-12-110, C.R.S., the Living Centers are considered to be enterprises under Section 20 of Article X of the State Constitution, known as the Taxpayer's Bill of Rights (TABOR). Enterprises are government-owned businesses that receive revenues in return for the provision of a good or service. An enterprise may receive up to 10 percent of its annual revenue from state and local government sources combined; otherwise, an enterprise must be financially independent of the state or any local government.

To maintain ongoing financial sustainability, the Living Centers must be diligent in maintaining or increasing revenue while controlling or reducing costs. The primary driver of revenue is the resident census, which refers to the number of residents being cared for at any given Living Center daily. Increasing the resident census is challenging due to legal provisions that only allow the centers to accept veterans, their spouses, and gold star parents. Further, the centers face competition from other facilities.

The primary driver of the Living Centers' operating costs are personnel-related expenses, which generally represent about 81 percent of total expenses. However, containing staffing costs is a challenge because the centers must meet state and federal staffing requirements designed to ensure quality of care. Further, most of the Living Centers' staff are state employees. Adding or reducing the number of state employees the Living Centers have takes time and can only occur in accordance with state personnel rules that significantly affect the reasons an employee may be terminated and how such termination is handled.

The overall objective of this audit was to assess the financial sustainability of the Living Centers. To achieve this objective, we analyzed seven financial ratios that are commonly used to measure an entity's financial soundness. Our analysis showed that the Living Centers, collectively, missed the benchmarks for at least three ratios each year. As shown in Exhibit 4, the Living Centers did not meet the asset sufficiency or operating reserve ratios in any of the six years and missed the operating margin ratio in each of the last three fiscal years. The detailed analyses, benchmarks, and results are shown in an appendix.

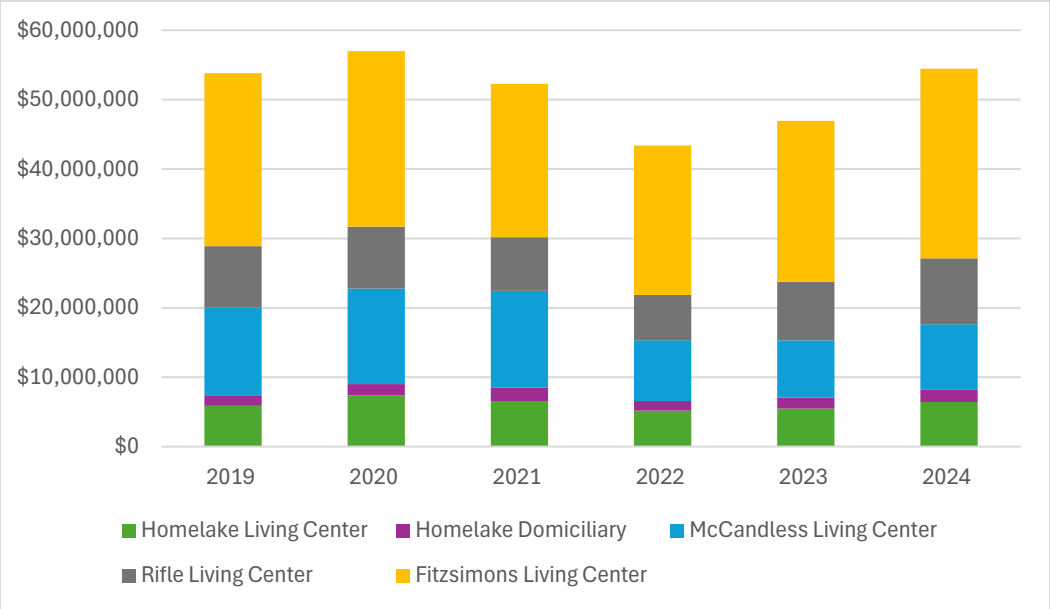
Exhibit 4: Colorado Veterans Community Living Centers' Summary of Benchmark Achievement

Ratio	Did the Living Centers Meet the Benchmark?					
	2019	2020	2021	2022	2023	2024
1: Asset Sufficiency	No	No	No	No	No	No
2: Operating Reserve	No	No	No	No	No	No
3: Operating Margin	Yes	Yes	Yes	No	No	No
4: Change in Fund Balance	Yes	Yes	Yes	No	Yes	Yes
5: Cash to Liability	Yes	Yes	Yes	Yes	Yes	Yes
6: Current	Yes	Yes	Yes	Yes	Yes	Yes
7: Days Cash on Hand	No	No	No	Yes	Yes	Yes

Source: Created by MGT from a financial analysis performed from financial data provided by the Division.
Ratio 1: Asset Sufficiency Ratio (ASR). Measures the ability of the Living Center's assets to cover its liabilities
Ratio 2: Operating Reserve Ratio (ORR). This ratio measures the period of time (with 1.0 equaling 1 year) the Living Centers' fund balance reserves will suffice to cover future expenses.
Ratio 3: Operating Margin Ratio (OMR). The OMR measures the efficiency of the Living Centers' operations. It indicates the percentage of the Living Centers' revenue that is left over after paying their operating costs.
Ratio 4: Change in Fund Balance Ratio (CFBR). The CFBR indicates whether a Living Center's fund balance is increasing or decreasing
Ratio 5: Cash to Liability Ratio (CLR). The CLR measures the Living Centers' liquidity by comparing their cash and cash equivalents to total liabilities.
Ratio 6: Current Ratio (CR). The CR measures the ability of the Living Centers to meet their short-term liabilities with short-term assets
Ratio 7: Days Cash on Hand (DCH). The DCH measures the number of days the Living Centers can operate using available cash and cash equivalents, without needing additional revenue

The results of our analysis of the seven financial ratios show that the Living Centers operate with narrow margins, as evidenced by the trends in revenues, expenses, and fund equity over the past six years. As reflected in Exhibit 5 below, the Living Centers' revenues declined significantly from Fiscal Year 2020 to Fiscal Year 2022. According to Division management, the decline was due to a decline in resident census caused by the COVID-19 pandemic. However, revenues have steadily grown in Fiscal Years 2023 and 2024.

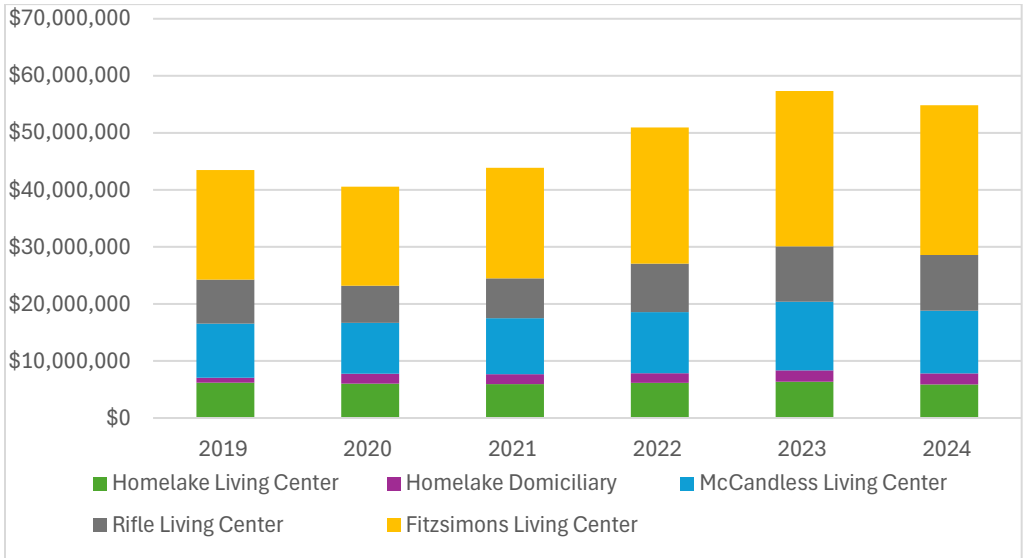
Exhibit 5: Revenues by Living Center For Fiscal Years 2019 through 2024



Source: Created by MGT from a financial analysis performed from financial data provided by the Division.

Exhibit 6 summarizes the operating expenses by Living Center from Fiscal Years 2019 through 2024. As reflected in the Exhibit, while operating expenses decreased slightly between Fiscal Years 2019 and 2020, operating expenses increased each year through Fiscal Year 2023. In Fiscal Year 2024, total expenses dropped slightly.

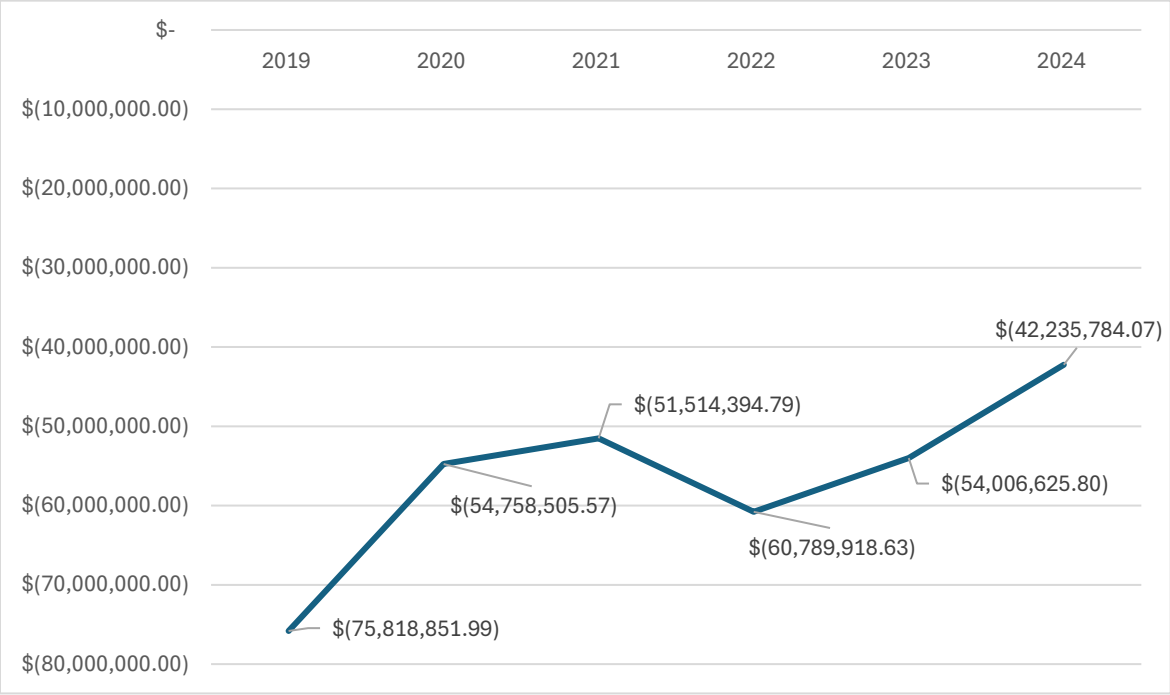
Exhibit 6: Operating Expenses by Living Center For Fiscal Years 2019 through 2024



Source: Created by MGT from a financial analysis performed from financial data provided by the Division.

Exhibit 7 shows the fund equity (total assets minus total liabilities) by Living Center for Fiscal Years 2019 through 2024. As reflected in the Exhibit, the overall fund equity for the Living Centers is in a deficit position; however, the deficit has decreased over the last two fiscal years.

Exhibit 7: Fund Equity in Total for All Living Centers For Fiscal Years 2019 through 2024



Source: Created by MGT from a financial analysis performed from financial data provided by the Division.

Resident Census Goals

Resident census is the total number of residents being cared for at any given living center daily, while resident census mix refers to the composition of residents based on the type of services they receive and the rates for these services. Resident census goals are essential for planning and allocating staff among the living centers. As discussed in the next finding, resident census goals should take into consideration the resident mix to ensure that the allocation of resources, including specialized care and support services, aligns with the diverse needs of the residents.

Setting census goals involves multiple steps and considerations to ensure that each Living Center effectively utilizes its resources and meets the residents' needs. The Living Center administrators are responsible for preparing a financial plan for their Living Center each year that includes

census goals, expected revenues and expenses, and projected staffing needs. The Living Centers submit these plans to the Division for review and approval. The plans are prepared prior to the beginning of the budget process and incorporated into the Division's annual budget.

Resident census goals also help the various Living Center administrators inform marketing efforts to increase resident census to generate sufficient revenue to be self-sustaining. In an attempt to increase the average resident census, each Living Center develops and implements unique marketing strategies based on the services it provides and the needs of the surrounding population. Marketing strategies include social media, radio, website, partnerships with other organizations, and YouTube ads.

The average annual resident census of the Living Centers has fluctuated between 62 percent and 84 percent in the last six fiscal years. The total average resident census for Fiscal Years 2019 through 2024 for the four state-operated Living Centers are presented in Exhibit 8 below.

Exhibit 8 – Living Centers' Resident Census Trends for Fiscal Years 2019 - 2024

Living Center	Capacity	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Bruce McCandless	105	89%	88%	73%	54%	51%	51%
Fitzsimons	180	87%	85%	62%	68%	68%	72%
Homelake (Domiciliary)	50	88%	93%	76%	75%	81%	84%
Homelake SNF*	60	78%	84%	65%	65%	66%	71%
Rifle	89	76%	72%	50%	51%	61%	64%
Totals	**484**	**84%**	**84%**	**64%**	**62%**	**64%**	**67%**

Source: Created by MGT from data provided by the Division
*-Homelake Skilled Nursing Facility.

FINDING 1: CENSUS GOALS

Resident census goals are crucial in the Living Centers' financial planning and sustainability. Census goals can help the Living Centers' administrators anticipate staffing needs to ensure adequate care for residents, making them a cornerstone of successful healthcare facility management. The Living Centers and the Division collaborate to establish census goals that provide target benchmarks that guide the Living Centers in their outreach and marketing efforts. Furthermore, census goals are factored into the budgeting process to forecast revenue and

expenses. Each of the Living Center administrators said that they track their resident census level daily to ensure that they have sufficient staff to provide adequate care to their residents.

What audit work was performed and what was the purpose?

We reviewed prior audit reports, including the Colorado State Veterans Nursing Homes Department of Human Services (the Department) Performance Audit Report issued by the Colorado Office of the State Auditor in 2011, to determine whether the report identified any issues relevant to our audit objectives. We also reviewed the Division's Policy No. BUS B101 – Preparation of the Annual Budget to understand the process implemented by the Division. We interviewed the Living Centers' administrators, who are responsible for preparing the financial plan for their Living Center before the beginning of the budget process, to determine how census goals are established and considered during the budget process. We also interviewed the Division Director, who is responsible for reviewing the completed budget as part of the consolidated operations, to gain an understanding of the budget review process.

We reviewed and analyzed the Living Centers' census goals data and operating budgets from Fiscal Years 2019 through 2024.

We conducted research to gain an understanding of initiatives being undertaken in other states to address resident census concerns in state-operated senior living facilities, such as nursing homes. We found that some states are increasing revenue by offering Adult Day Health Care (ADHC), which serves as a non-institutional alternative to a skilled nursing facility for aging veterans who have sufficient family support to remain in their own homes but who need or will benefit from a day program that promotes wellness, health maintenance, and socialization.

The purpose of our work was to assess the Division's processes for establishing census goals and the efforts to reach the goals as part of its responsibility to ensure that each Living Center generates enough revenue to be self-sustaining.

How were the results of the audit work measured?

Section 26-12-110, C.R.S., establishes a Colorado "veterans center or group of veterans centers" as an enterprise. An enterprise is a government-owned business that receives revenue in return for the provision of a good or service. As noted previously, an enterprise must be financially independent of the state or any local government, receiving no more than 10 percent of its annual

revenue from state and local government sources combined. As such, an enterprise must generate at least 90 percent of its annual revenue from other sources, such as user fees.

To maintain enterprise status, the Division must keep the overall resident census across the Living Centers, including the resident mix, at levels that generate sufficient revenue to cover their costs. As such, in accordance with nursing home best practices:

- The Living Centers need census goals that are realistic and achievable.
- The census goals need to include well-reasoned resident mixes.
- The census goals and the underlying resident mixes should be used to inform outreach/marketing efforts.
- The Living Centers should regularly track census data to identify trends.
- The Living Centers should establish various census goals to account for the resident mix accurately rather than relying on a single overall census goal.

Furthermore, the census goals should be ambitious enough to help bring the Living Centers to optimal capacity to achieve and maintain financial self-sustainability.

What problem did the audit work identify?

The Living Centers have not achieved census levels that have kept them self-sustaining in the last three years (Fiscal Years 2022 through 2024). Since 2020, the average daily resident census has declined overall by about 23 percent, from 84 percent of capacity in Fiscal Year 2020 to only 64 percent of capacity in Fiscal Year 2023.

Exhibit 9 –Living Centers' Average Daily Census as a % of Capacity

Fiscal Year	2019	2020	2021	2022	2023	2024
Bruce McCandless	89%	88%	73%	54%	51%	51%
Fitzsimons	87%	85%	62%	68%	68%	72%
Homelake Domiciliary	88%	93%	76%	75%	81%	84%
Homelake SNF*	78%	84%	65%	65%	66%	71%
Rifle	76%	72%	50%	51%	61%	64%
Total	**84%**	**84%**	**64%**	**62%**	**64%**	**67%**

Source: Created by MGT from data provided by the Division
*-Homelake Skilled Nursing Facility.

In line with the drop in census, total Living Centers' operating revenue dropped about 18 percent from $57.0 million in Fiscal Year 2020 to $47.0 million in Fiscal Year 2023. Also, over the same period, operating expenses increased by 41 percent, resulting in net operating losses in Fiscal Years 2022 through 2024, with the highest net operating loss of $10.4 million for Fiscal Year 2023.

Exhibit 10 – Living Centers' Operating Rev. & Expenses, and Net Operating Gain(Loss)

Fiscal Year	2019	2020	2021	2022	2023	2024
Living Centers	**Operating Revenues**					
Bruce McCandless	$12,648,819	$13,768,846	$13,927,825	$8,758,229	$8,251,311	$9,464,286
Fitzsimons	$24,906,955	$25,287,070	$22,080,202	$21,548,946	$23,174,156	$27,316,144
Homelake Domiciliary	$1,536,934	$1,634,711	$1,967,303	$1,372,323	$1,580,932	$1,749,018
Homelake SNF**	$5,869,087	$7,371,108	$6,565,449	$5,193,205	$5,481,927	$6,425,265
Rifle	$8,843,135	$8,928,880	$7,718,050	$6,527,125	$8,463,721	$9,500,724
Total	**$53,804,929**	**$56,990,615**	**$52,258,828**	**$43,399,828**	**$46,952,047**	**$54,455,437**
	Operating Expenses					
Bruce McCandless	$9,481,367	$8,924,383	$9,826,333	$10,724,766	$12,014,209	$10,989,048
Fitzsimons	$19,215,218	$17,375,179	$19,370,479	$23,898,396	$27,252,483	$26,249,977
Homelake Domiciliary	$851,319	$1,742,643	$1,740,697	$1,666,848	$2,003,821	$1,928,133
Homelake SNF**	$6,207,593	$6,027,325	$5,930,575	$6,178,515	$6,362,957	$5,900,253
Rifle	$7,717,600	$6,491,313	$6,997,083	$8,484,136	$9,710,780	$9,776,173
Total	**$43,473,097**	**$40,560,842**	**$43,865,167**	**$50,952,662**	**$57,344,250**	**$54,843,584**
	Actual Net Operating Gain/(Loss)					
Bruce McCandless	$3,167,451	$4,844,463	$4,101,492	$(1,966,537)	$(3,762,898)	$(1,524,762)
Fitzsimons	$5,691,737	$7,911,891	$2,709,723	$(2,349,451)	$(4,078,326)	$1,066,167
Homelake Domiciliary	$685,615	$(107,931)	$226,606	$(294,525)	$(422,889)	$(179,115)
Homelake SNF**	$(338,506)	$1,343,783	$634,874	$(985,310)	$(881,030)	$525,013
Rifle	$1,125,535	$2,437,567	$720,967	$(1,957,011)	$(1,247,059)	$(275,449)
Total	**$10,331,832**	**$16,429,773**	**$8,393,662**	**$(7,552,834)**	**$(10,392,202)**	**$(388,148)***

Source: Created by MGT from data provided by the Division
* The 2024 amounts are not final as the final, adjusted and audited financial data was not yet available at the time of this performance audit.
**-Homelake Skilled Nursing Facility.

The Living Centers have been able to continue operations using reserves during those years. We did note that Fiscal Year 2024 is an improvement with approximately $54.5 million in operating revenues.

Why did this problem occur?

The number of residents cared for at the Living Centers experienced a significant decline starting in Fiscal Year 2020 due to the COVID-19 pandemic, which affected the Living Center's ability to generate sufficient revenues to be self-sustaining from Fiscal Years 2022 through 2024. Contributing to this problem is the Division's failure to establish resident census goals that would generate sufficient revenue to be self-sustaining. Division staff indicated that the resident census goals they have established are goals that they consider realistic based on the trends of previous years. Although the overall resident census goal for all Living Centers combined has increased since its low point of 324 average daily residents in Fiscal Year 2022, the combined goal of 336 average daily residents for Fiscal Year 2024 is still 99 residents less than the 435 average daily resident goal established in Fiscal Year 2019 before the COVID-19 pandemic and 84 residents below the actual resident census of 408 average daily residents from Fiscal Year 2019. Exhibit 11 shows the average daily resident census goals and actual daily resident census for each living center and the combined net operating gain/(loss) for the four state-operated Living Centers from Fiscal Years 2019 through 2024.

Exhibit 11 – Living Centers' Average Daily Resident Census Goals/Actual and Corresponding Net Operating Gain/(Loss)
For Fiscal Years 2019 through 2024

Living Center	Bruce McCandless	Fitzsimons	Homelake Domiciliary	Homelake SNF**	Rifle	Total	Actual Net Operating Gain/(Loss)
Fiscal Year	Average Daily Census: Goal/Actual						
2019	94/93	169/157	44/44	53/47	75/67	435/408	$10,331,832
2020	94/92	159/152	47/47	50/50	71/64	421/405	$16,429,773
2021	90/76	125/111	45/38	48/39	62/44	370/308	$8,393,662
2022	72/56	120/123	40/37	40/39	52/46	324/301	$(7,552,834)
2023	60/53	131/122	42/40	45/40	64/55	342/310	$(10,392,202)
2024	57/54	132/129	45/42	43/43	59/57	336/324	$(388,148)*

Source: Created by MGT from data provided by the Division
* The 2024 amounts are not final as the final, adjusted and audited financial data was not yet available at the time of this performance audit.
**-Homelake Skilled Nursing Facility.

As Exhibit 11 above illustrates, the Living Centers' average daily resident census pre-COVID-19 were sufficient to ensure that the Living Centers were self-sustaining. However, the resident census numbers post- COVID-19 are not sufficient to ensure that the Living Centers are self-sustaining. Although the resident census figures have increased since their low point in Fiscal Year 2022, they have not reached the highs from the pre-COVID-19 years. The Living Centers and Division management have continued to factor in the prior years' unusual COVID-19 census numbers in their resident census goals; for example, while the average daily census goal reached a high of 435 in 2019, it bottomed out at 324 in 2022. Over the last two years, there has been a slight increase in both actual average daily resident census and average daily resident census goals; however, in 2024, the actual average daily resident census and average daily resident census goals were still lower by 84 and 99, respectively, compared to the highs in 2019.

Marketing efforts aimed at increasing the average daily resident census are closely informed by established census goals. In an attempt to increase the average daily resident census, over the last couple of years, the Living Centers have begun to take steps to rebuild their marketing presence by focusing on referral sources, such as VA hospitals, medical clinics, non-VA hospitals, and places where veterans congregate, including Veteran Service Offices in the counties where the Living Centers are located. By aligning outreach strategies with these goals, the Living Centers can more effectively target eligible residents through tailored advertising, community

engagement, and informative campaigns, ultimately striving to meet and exceed their resident census targets.

The Living Centers face considerable challenges, however, in their efforts to increase the resident census and ensure self-sustainability. These challenges are varied and multifaceted, heavily impacting their operational dynamics and financial stability, including:

- Limited Eligibility: One of the most significant constraints is the restriction of admitting only veterans, spouses of veterans, and gold star parents. This policy significantly narrows the pool of potential residents, directly limiting the Living Centers' ability to increase their census. As a result, the Living Centers face a chronic challenge in generating sufficient revenue to remain self-sustaining.
- Advantage Plans Not Accepted: Historically, the Living Centers have not accepted Medicare Advantage Plans and have routinely denied potential residents covered under these plans. However, Medicare Advantage Plans have gained significant popularity and utilization in recent years. Recognizing this shift, the Living Centers are now beginning to contract with various managed care plans to admit a new population of residents. This strategic move is intended to broaden their resident base and improve census numbers, although it is a recent development and its full impact remains to be seen.
- Rise in Competition: The Living Centers face increased competition from other facilities offering similar services, as well as a rise in in-home care providers that offer potential residents the flexibility to remain in their current home settings.

As it relates to offering additional services, the Living Centers do not currently offer Adult Day Health Care (ADHC) for veterans with sufficient family support to remain in their homes. ADHC can help maximize the participant's independence, enhance their quality of life, and provide respite for family caregivers.

Why does this problem matter?

Establishing appropriate, reasonable, and ambitious census goals is a first step for the Division and Living Centers to improve their actual resident census numbers and help them generate enough revenue to be self-sustaining. Without census goals based on each of the Living Centers' operating expenses and break-even point, the Division cannot effectively plan for financial stability and operational efficiency.

The Living Centers' marketing efforts should be influenced by their resident census goals, aiming to attract more residents and thereby generate additional revenue. By implementing outreach,

advertising, and community engagement strategies, they seek to inform and persuade eligible individuals about the benefits and services offered, ultimately striving to increase their resident census to sustainable levels. By being self-sustaining, the Living Centers reduce their reliance on state funding, freeing up funds that can be used for other services and programs.

Furthermore, the inability to be self-sustaining puts the Living Centers at risk of losing their enterprise status. If they continue with losses, not only would the state need to begin including their revenues in the State's TABOR calculations, which affects the State's overall bottom line, but the State may determine that one or more Living Centers cannot remain open. Closing any of the Living Centers would mean that their residents would need to find other accommodations. Many residents rely on federal funds to cover costs, so they may struggle to afford other options if a living center closes.

Recommendation No. 1:

The Department of Human Services' Division of Veterans Community Living Centers should work with the Veterans Community Living Centers (Living Centers) to continue developing and implementing a comprehensive plan to increase resident census or provide additional services to increase revenue. This should include:

a. Incorporating into the plan detailed outreach, marketing, and community engagement strategies to attract eligible residents, including veterans, their spouses, and gold-star parents. These strategies may include emphasizing the qualities that distinguish the Living Centers from other long-term care facilities, such as that qualified veterans pay nothing for the Living Centers and that the federal Veterans Administration oversees and certifies the Living Centers.
b. Considering offering Adult Day Health Care (ADHC) for veterans with sufficient family support to remain in their homes.

Department of Human Services Response:

A. Agree
   Implementation Date: March 2026

The Department of Human Services' Division of Veterans Community Living Centers (VCLC's/Division) agrees with the recommendation and currently have marketing plans for each facility to carry out and complete with basic marketing contacts within communities. However, the facility specific marketing plans and actions do not contain specific referral sources to target, the frequency of these efforts, or identification/addition of any new referral sources or what separates the VCLC's from other providers. The division agrees that the marketing plans could be enhanced and focused. This process has begun with census/marketing meetings that occur twice a month with applicable teams to discuss growth opportunities, marketing efforts and contacts made.

B. Agree
Implementation Date: January 2026.

The Division agrees with this recommendation as the VCLC's need to evaluate other possible funding/revenue streams. As with any new program that is in development, the division would need to evaluate the competition in the current market, identify licensure and programmatic funding costs, identify regulatory requirements including physical environment and evaluate other programs in other states to see if this is a financially successful program. Additionally, the ADHC would not increase census in any of the VCLC's, only generate revenue into the cash fund, unless the resident was no longer able to stay in the independent living environment and would require 24/7 care.

Resident Mix

The financial health of the Living Centers is significantly influenced by the resident mix. Resident mix means the combination of residents with varying rates. The Living Centers receive different rates from different sources (i.e., VA, Medicaid, Medicare, private) and for different residential settings and levels of care. A well-balanced mix can ensure the Living Centers generate sufficient revenue to cover their operating costs. Here are some key reasons why the resident mix is important:

- Financial Sustainability: A diverse resident mix can help stabilize income streams, making the Living Centers more financially resilient. This diversity reduces dependency on any single source of revenue and mitigates the risk associated with changes in reimbursement policies from the different plans.

- Quality of Care: Ensuring a steady revenue flow allows the Living Centers to invest in quality care services, staff training, and facility improvements, which are essential for the well-being of the residents.
- Long-term Viability: By accurately incorporating the different rates into their budgeting process, the Living Centers can plan for long-term sustainability, ensuring they can continue providing vital services to veterans and their families.

FINDING 2: RESIDENTS MIX

By effectively managing the resident mix and incorporating accurate rates into the budgeting process, the Living Centers can more adequately estimate revenue, allowing them to align resources with resident needs. The U.S. Department of Veterans Affairs (VA) sets the VA per diem rates. Medicaid and Medicare rates are set by various federal and state guidelines. The Division sets the rates that are charged to "private pay" residents. The Living Centers input these rates into their billing system, Point Click Care. The Division typically inputs rates into Point Click Care at the beginning of the fiscal year or whenever there are changes in reimbursement rates or service rates.

When the Division starts budgeting for the state fiscal year, they make assumptions based on various rate types that will change at different times during the State's fiscal year. For example, the rates paid by the VA and Medicare are effective based on a federal fiscal year of October 1 (three months into the state fiscal year) through September 30, while private pay rates are effective each January 1 (six months into the state fiscal year) to follow the calendar year. Medicaid rates are effective July 1 through June 30—which aligns with the state's fiscal year. Exhibit 12 below provides an overview of the rate types, effective dates, effective fiscal year, and the timing of the effective dates as they relate to the state fiscal year.

Exhibit 12 – Rate Type, Effective Date, Effective Fiscal Year, and Changes

Rate Type	Effective Date	Effective Fiscal Year	Changes
Federal reimbursements (Medicare)	October 1	Federal fiscal year	Annually - Three months into the state fiscal year
Private pay rates	January 1	Calendar year	Annually - Six months into the state fiscal year
VA per diem rates	October 1	Federal fiscal year	Annually - Three months into the state fiscal year
Medicaid rates	July 1	State fiscal year	Annually – Effective throughout the state fiscal year.

Source: Created by MGT from data gathered through interviews with Division staff.

The monthly revenue generated by each of the Living Centers is greatly impacted by the type of room and level of care the Living Centers' residents utilize over time, because their respective daily rate varies. This is referred to as the "mix of residents" at the Living Centers. Exhibit 13 below presents the daily rates for levels of care at the Living Centers as of November 2024.

Exhibit 13 – Daily Rates for Levels of Care at the Living Centers

Level of Care	Fitzsimons	McCandless	Homelake	Rifle
Semi-Private Room (Veteran)	$240.00	$173.49	$135.00	$172.71
Semi-Private Room (Non-veteran*)	$357.93	$291.42	$262.17	$290.64
Private Room (Veteran)	$260.00	N/A	$146.00	N/A
Private Room (Non-veteran*)	$377.93	N/A	$273.17	N/A
Semi-Private Room Memory Care (Veteran)	$240.00	$180.49	N/A	$185.71
Semi-Private Room Memory Care (Non-veteran*)	$357.93	$298.42	N/A	$303.64
Private Room Memory Care (Veteran)	$260.00	N/A	N/A	N/A
Private Room Memory Care (Non-veteran*)	$377.93	N/A	N/A	N/A
Respite Care (Veteran)	N/A	$148.83	N/A	N/A
Respite Care (Non-veteran*)	N/A	$258.25	N/A	N/A
Cottage/Domiciliary (Veteran)	N/A	N/A	$55.00	N/A
Cottage/Domiciliary (Non-veteran*)	N/A	N/A	$109.89	N/A

Source: Created by MGT from data found on the Department of Human Services website
*-Non-veterans include spouses or widows of veterans and gold star parents.

What audit work was performed and what was the purpose?

We reviewed the state and federal requirements for admitting residents and the different types of reimbursement rates paid for resident care. We reviewed Department Policy No. BUS B101 – *Preparation of the Annual Budget* to understand the process implemented by the Living Centers. We also interviewed staff at the Division and the Living Centers about the differences in reimbursement rates and how those differences are accounted for in budgeting for and monitoring the Living Center's financial performance.

We reviewed and analyzed each Living Center's Fiscal Year 2024 operating budget to determine if the Living Centers incorporated differences in reimbursement rates, based on the mix of residents being cared for at any given time, into the budgeting process for each Living Center. We also compared the rates in the Fiscal Year 2024 operating budgets of each Living Center to the applicable rates on the Rates by Payor All Buildings Schedule to determine if the rates included in the operating budgets were accurate. The Rates by Payor All Buildings Schedule is prepared annually by the Division to track the current rates for all services and residential settings by facility, including Medicaid, private pay, and VA per diem.

The purpose of our audit work was to assess the Division's processes for incorporating the resident census mix when establishing census goals and its efforts to reach the goals as part of its responsibility to ensure that each Living Center generates enough revenue to be self-sustaining.

How were the results of the audit work measured?

The use of different resident mixes and rates during the budgeting process is considered a best practice for nursing facilities that ensures a more accurate and comprehensive financial plan that includes diverse revenue streams and cost management.

What problem did the audit work identify?

We found that, although the Division incorporated different resident/payor rates into its Fiscal Year 2024 budget, the rates did not always agree with the rates noted on the Rates by Payor All Buildings Schedule. Our audit identified the following issues:

- **The Division did not anticipate rate changes and used Fiscal Year 2023 rates throughout the Fiscal Year 2024 Budgeting Process.** In at least five instances, the Division used the

rate for Fiscal Year 2023 through all of Fiscal Year 2024. The correct approach would have been to use the Fiscal Year 2023 rates until the Fiscal Year 2024 rates became effective depending on the service either on October 1, 2023, or January 1, 2024, and then update the rates based on anticipated rate changes for the remainder of Fiscal Year 2024.

- **The Division used incorrect rates in its budget**. The Division used the wrong rate for the year in at least four instances. For example, rates included in the budget for service-connected veterans[3] were $529.78 for three Living Centers when the actual reimbursement rate was $518.37. Unlike the consistent use of the prior year's rates for Fiscal Year 2024 noted above, the $529.78 rate for service-connected veterans was simply incorrect and did not correspond to any previous year's rates. The use of the incorrect service-connected rates resulted in the combined budgeted revenue for the four Living Centers for the three months of July 2023, August 2023, and September 2023 being overestimated by approximately $122,000.

- **The Division incorrectly used a reimbursement rate from Fiscal Year 2022**. In the Fiscal Year 2024 budget for Rifle Living Center, the Division used the 2022 Medicaid rate of $308.77 for the entire year. This led to a shortage in estimated revenue for Fiscal Year 2024 of at least $257,000 since the correct Medicaid rate for Fiscal Year 2024 ranged from $331.14 to $348.58 depending on the month.

The Division regularly updates and reports its revenue and expense estimates to Department leadership. However, these updates lack crucial details regarding how changes in rates affect the revenue estimates. For instance, if the Division notices that an adjustment has resulted in higher-than-expected revenue projections, this crucial detail about the rate increase's impact is often omitted from the financial reports submitted to Department leadership.

Why did this problem occur?

As previously noted, each payor has rate adjustments at different times of the year. Division management indicated that the various payor rate effective dates throughout the year complicate its ability to budget for each fiscal year accurately. The rate sheet created by the Division for the year's budget process was based on the calendar year and the rates in the Living Center's billing system. The rate sheet is a document created by the Division that includes the rates by service type by facility and it is used to inform the rates for the different services during the budgeting process. Although the Division was aware of the rate changes and when they would occur, the

[3] Service-Connected Veteran – A veteran who has a disability or medical condition that has been determined by the VA to be directly related to their military service.

rate changes did not get built into the Living Centers' budgets and were not shown on the rate sheet. Additionally, other than the rate sheet, which is fixed for a point in time, the Division does not have a spreadsheet or financial tool that will allow the Division to analyze the effects rate changes will have on revenue projections as changes in rates occur.

As it relates to Medicaid rates, which become effective July 1, the Division does not receive final notification of any annual increase until around June, after the budget for the upcoming year has been finalized. Additionally, there is not a set percent increase annually; instead, it is based on many factors that go into the rate calculation, and the Division builds the budget on the assumption that their rate will not decrease.

Furthermore, the Division does not have a documented review process for the budgeting process. While the Division indicated they did review the information, the Division's review process failed to identify that a 2022 Medicaid rate of $308.77 was being used for Rifle Living Center during the Fiscal Year 2024 budgeting process, which resulted in lower estimated revenue as previously explained. The review process also failed to identify that the wrong rates were used for service-connected services.

Why does this problem matter?

Ensuring that different reimbursement rates are used correctly in the budgeting process is essential for maintaining financial stability and ensuring the Living Centers' long-term viability. Overestimating rates and related revenue may cause the Living Centers to face significant shortfalls, leading to budget deficits that can jeopardize its operations. Underestimating rates can lead to missed opportunities for investment in necessary resources, such as staffing and equipment. Even though the Living Centers are not currently generating sufficient revenues to invest in other resources, understanding and correctly applying rates remains vital, as it could become a significant issue in the future if the Living Centers begin generating adequate resources to make such investments. Additionally, the omission of how changes in reimbursement rates impact revenue estimates can lead to incomplete financial forecasting.

Recommendation No. 2:

The Department of Human Services' Division of Veterans Community Living Center should improve its alignment of resources with resident needs through management of the resident mix and incorporating accurate rates into the budgeting process by:

a. Documenting and implementing a review process over the rate budgeting process. The Division's review process should ensure that the various Veterans Community Living Centers enhance their review processes to confirm that the rates used in the budget process agree with the most updated rate information provided by the various providers (e.g., federal Veterans Administration) and take into account anticipated rate changes, as applicable, to help identify discrepancies or outdated information before they impact the budget.
b. Informing Department leadership about how rate changes impact estimated revenues in its financial updates; one method the Division can use to include information about how rate changes impact estimated revenues in its financial updates to Department leadership is to implement a standardized financial reporting tool that integrates regular and timely rate adjustment data with revenue projections, providing clear and detailed explanations of the effects of each rate change.

Department of Human Services Response:

A. Agree
Implementation Date: June 2025.

The Division agrees with this finding and will implement and document a review process over the rate budgeting process. While there were errors identified in the rates of different payor types within budgets that had been submitted, this is the result of human error and having to estimate rate increases based on assumption and past rate increases. These issues identified within the budgets had a negligible impact to the financial picture as rates within the billing programs and rates received are true to the actual rates paid by various payor types. As the rates change and the VCLC's are provided the information, these are entered into the billing system, prior to any billing being completed for the months following. Furthermore, the budgets are only a tool to provide a basic plan and snapshot of performance. The monthly

and annual financial reports are the guiding and final documents that must have accurate information, rates, occupancy and spending identified, then trended and reported to the facility leadership team, division and department. The Division also agrees a documented verification of rates within the billing system, compared to the monthly financial records, should occur in January, July, and October as these are set by external agencies, and signed off by budget and administrative staff.

B. Agree
Implementation Date: July 2025.

The Division agrees with this finding and has been in the process of developing a standardized financial reporting tool that does include current rates of payors, revenue/expense projections, as well as the actual results of these projections. The Division will utilize the financial reports on a monthly basis to analyze our financial performance based on our budget, identify where the expenses might exceed the budget categories, and meet with building Administrators and department head staff to identify recovery plans to attempt to offset expenses the following month in an attempt to right set by the end of the year to accomplish the budget goals. Full utilization of this tool and the corresponding processes will begin with the new fiscal year to better manage the budget for FY 25-26.

Staffing

The Living Centers operate under stringent federal and state guidelines and regulations, which include requirements to maintain specific levels of nursing and other skilled staff in order to ensure high-quality care for residents. These guidelines and regulations establish Per Patient Day (PPD) requirements. A PPD indicates the minimum number of hours of nursing or other skilled services each resident, on average, must receive daily. The PPD, then, dictates the number of skilled/nursing staff the Living Centers need to employ. PPD requirements are governed by several factors, including federal and state regulations and union contracts.

The Colorado Workers for Innovative and New Solutions (COWINS) union represents more than 27,000 state employees, which includes employees in the Department, Division, and Living Centers. COWINS reports that it negotiates with the State of Colorado for better wages, benefits, and working conditions for State employees. In November 2022, COWINS negotiated a specific

agreement with the Department regarding the Department's employees. This agreement covered changes in payroll, staffing ratios, rewards and incentives, and transfers and promotions. This agreement required the Living Centers, as of January 12, 2023, to maintain a PPD of 3.78 hours. This PPD requirement is in place until the State or Department negotiate a different PPD with COWINS.

The PPD requirement per the agreement with COWINS, at 3.78 hours, is significantly higher than the state and federal requirements in place during this time period of 2.0 and 2.5 hours, respectively. Per the agreement with COWINS, PPD was calculated as follows:

Per Patient Day Formula
Total Hours Worked by RNs, LPNs, and CNAs in a Day
÷
Number of Patients in the Facility for the Same Day

The Living Centers use a combination of permanent state employees, temporary state employees, and staff hired through staffing agencies to meet the PPD requirements. A breakdown of each type of staff is provided below:

- Permanent State Employees
  - Hired directly by the State. Hiring and termination must follow state personnel rules, which include various due-process steps and protections.
  - More cost-effective, on an average per hour basis, than agency and temporary staff.
  - Provide a high level of continuity of care, as they are permanent members of the skilled care team.

- Temporary State Employees
  - Hired directly by the Living Center for a limited period.
  - Generally used for covering seasonal increases in workload or specific projects.
  - Generally higher hourly rate than permanent state employees, but temporary state employees receive no benefits.
  - Tend to provide more consistency in care than staffing agency workers as they are employed directly by the Living Center for the duration of their contract.

- Staffing Agency Workers

- Hired through staffing agencies.
- Often used to fill short-term gaps or cover shifts when state employees are unavailable.
- Can fill positions on the same day as the need is identified.
- Typically more expensive due to staffing agency fees.
- May provide care that varies in consistency as different staffing agency staff might be assigned at different times.

Below is an example of the types of staff typically employed by a Living Center and their respective duties:

- Administrative Staff: Responsible for overseeing the daily operations of the Living Center, making decisions on staffing needs, managing budgets, and ensuring compliance with state and federal regulations. They include roles such as the Living Center Administrator, who evaluates PPD needs and makes staffing decisions.
- Medical Staff: Provide direct care to residents, which includes doctors, nurses, and other healthcare professionals. Their duties involve assessing residents' health, administering treatments, and ensuring that care plans are followed to meet the medical needs of the residents.
- Support Staff: Assist in non-medical resident care and day-to-day operations. They might include roles like caregivers and aides who help with activities of daily living, such as bathing, dressing, and feeding residents.
- Maintenance Staff: Ensure that the Living Center facilities are clean, safe, and well-maintained. Their duties include performing repairs, maintaining equipment, and ensuring the overall upkeep of the building and grounds.
- Specialized Staff: Provide specific services that cater to the unique needs of the residents. This can include therapists (physical, occupational, and speech), social workers, and activity coordinators who design and implement programs to enhance the quality of life for residents.

The Living Centers evaluate PPD needs each morning, starting with a daily count of residents. The Living Center Administrator is responsible for deciding how to meet the PPD needs. The Living Center may take actions such as assigning an administrative manager to a floor to increase PPD, requesting staff from a staffing agency to increase PPD, or offering someone the day off if PPD is too high. The Living Centers also have the opportunity to hire temporary or part-time staff, but they often rely on more expensive staffing agency workers to meet PPD requirements.

The combination approach to staffing occurs, in part, to address the frequent fluctuations in the resident census and resident mix of the Living Centers. To hire or terminate permanent state employees, the Living Centers must adhere to state personnel rules that contain due process requirements that cause hiring to be a lengthy process and termination to be potentially ineffective. As an example, if the Department sought to eliminate a staff position within the Living Centers due to a drop in the resident census, the employee who occupies the position may have "retention rights" that require they be placed in another equivalent position (State Personnel Board Rule 7-13). In such a case, there is some chance that the overall FTE count might be reshuffled among the Living Centers, but not reduced overall. In contrast, hiring a temporary state employee is a much shorter process and termination is defined at the time of hiring. Temporary state employees do not have retention rights. Additionally, the Living Centers can adjust the hours temporary state employees work as the resident census shifts. Using staffing agencies is the most expeditious method of bringing on staff to address an unanticipated increase in needs. Further, the tenure of staff from a staffing agency can be determined on a daily basis and ended virtually as soon as the need for them changes.

For any long-term care facility, including the Living Centers, personnel costs are a significant portion of the total expenses that must be managed. Personnel costs for the Living Centers include payroll and benefits for state employees and the amounts paid to staffing agencies for the staff they provide, which are typically referred to as "personal services." From Fiscal Year 2019 through Fiscal Year 2024, personnel costs represented between 60 and 77 percent of total expenses for the Living Centers.

FINDING 3: STAFFING RESOURCES

The need for direct care staff varies based on the number of residents at any given time. As part of the budgeting process, the Living Centers evaluate trends in the resident census and census goals to determine the amount to budget for personnel costs. However, the Living Centers cannot quickly make staffing adjustments to reflect fluctuations in the resident census. In particular, the hiring and termination of permanent state employees are governed by the State's Personnel Rules, which contain requirements that make the hiring process lengthy and place parameters on involuntary terminations. This is the reason the Living Centers indicate that they rely on temporary hires or staff provided through staffing agencies to help meet the PPD requirements.

What audit work was performed and what was the purpose?

We reviewed Division Policy No. BUS B101 – *Preparation of the Annual Budget*, to understand the budget process implemented by the Division. We interviewed Division staff and the Living Center administrators to gain an understanding of how staffing needs and costs are considered during the budget process.

We also reviewed applicable federal and state regulations and the Department's 2023 agreement with COWINS, which—as noted previously--contains a staffing metric that the Living Centers must adhere to. We also reviewed resident census data, employee data, personnel expenditures, total expenses, and total revenue for the Living Centers for Fiscal Years 2019 through 2024.

The purpose of our test work in this area was to determine whether the Division evaluated the staffing of the Living Centers to balance the need to retain qualified staff to provide the care needed with the decline in average resident census numbers. This included determining whether the number of FTE and total personnel costs have decreased in proportion to the decrease in the resident census and how personnel costs impact the Living Centers' ability to be self-sustaining.

How were the results of the audit work measured?

Due to their enterprise status, the Living Centers are required to be financially self-sustaining pursuant to Section 26-12-110, C.R.S, this means the Living Centers must be able to control expenses to avoid their expenses exceeding their revenues. Personnel costs account for the majority of the Living Centers' expenses, representing between 60 and 77 percent of total expenses for Fiscal Years 2019 through 2024. As such, limiting staffing expenses is critical for the Living Centers to remain financially viable and maintain their enterprise status. For this finding, we measured whether the Living Centers were controlling staffing costs to keep their expenses within their revenue, as required for them to maintain enterprise status.

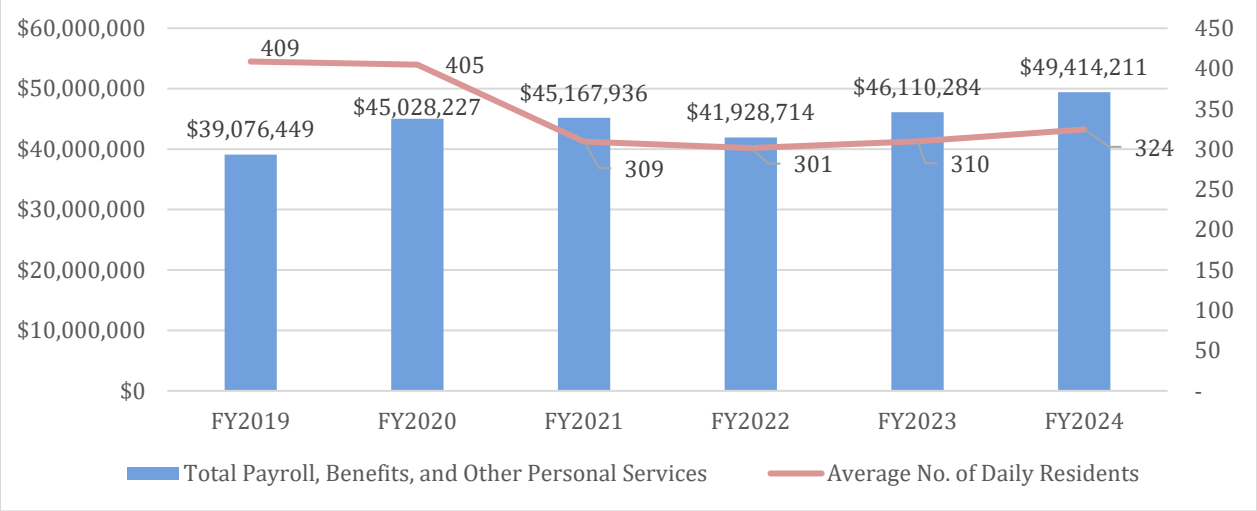
Furthermore, the Living Centers were required to comply with minimum staffing standards: 3.78 PPD as specified by the COWINS agreement, 2.5 PPD according to the Code of Federal Regulation Section 51.130, and 2.0 PPD as mandated by the Code of Colorado Regulations Chapter 5, Section 9.3. In cases where the minimum staffing requirements differ, such as this one, the Living Centers must comply with the highest PPD requirement. In this case, the Living Centers were required to comply with the 3.78 PPD requirement as established by the agreement with COWINS. Division

management indicated that PPD requirements are met as they are manually tracked daily at each Living Center.

What problem did the audit work identify?

Our audit disclosed that, in total, the Living Centers' personnel-related costs increased between Fiscal Years 2019 and 2024 by about 26 percent, despite a decline in the resident census of approximately 21 percent over the same period. Exhibit 14 presents the fluctuation in the average daily census data and the total payroll, benefits, and other personal services costs from Fiscal Year 2019 through Fiscal Year 2024.

Exhibit 14 – Colorado Veterans Community Living Centers'
Average No. of Daily Resident Census and Total Payroll, Benefits, and Other Personal Services
Fiscal Years 2019 through 2024



Source: Created by MGT from census data and financial data provided by the Division
Average number of daily residents is the typical number of residents who live in the facility on any given day.

Overall, Exhibit 14 demonstrates that, despite the reduced resident population, the Living Centers' costs associated with staffing have continued to escalate. Additionally, as shown in Exhibit 15, the average payroll, benefits, and other personal services (personnel) costs per resident, have increased significantly since Fiscal Year 2019. While the Division has limited the increase in costs in Fiscal Years 2023 and 2024, overall, there was a 60 percent increase in personnel costs per resident between Fiscal Year 2019 and Fiscal Year 2024.

Exhibit 15 – Colorado Veterans Community Living Center's Average Payroll, Benefits, and Other Personal Services per Resident

Fiscal Year	Average Personnel Cost per Resident	Percent Change
2019	$95,541.44	
2020	111,180.81	16.37%
2021	146,174.55	31.47%
2022	139,298.05	(4.70%)
2023	148,742.86	6.78%
2024	152,513.00	2.53%

Source: Created by MGT from data provided by the Division

MGT also compared the total personnel costs to total operating expenses to determine if the percentage of operating costs dedicated to personnel was increasing or remaining stable. As shown in Exhibit 16, the percentage of operating expenses dedicated to personnel costs has decreased over time, reaching about 70 percent in Fiscal Year 2023.

Exhibit 16 – Colorado Veterans Community Living Centers' Total Personnel Costs as a Percentage of Operating Expenses

Fiscal Year	Total Personnel Costs	Total Operating Expenses	Personnel Costs as a % of Operating Expenses
2019	$39,076,449	$49,053,497	79.66%
2020	45,028,227	45,272,115	99.46%
2021	45,167,936	50,156,428	90.05%
2022	41,928,714	57,705,190	72.66%
2023	46,110,287	65,938,567	69.93%
2024*	49,414,211	64,247,823	76.91%

Source: Created by MGT from data provided by the Division
* The 2024 amounts are not final as the final, adjusted and audited financial data was not yet available at the time of this performance audit.

Why did this problem occur?

The Division and Living Centers have not developed processes to accurately forecast the resident census, including processes for evaluating historical levels of patient acuity and census, and the staff needed to meet PPD requirements. Patient acuity means the level and severity of the

patient's illness. While the Division considers resident census data in preparing the budget, the process is not effective in ensuring staffing is adequately forecasted. Additionally, the Living Centers' strategies to have sufficient personnel on hand to meet PPD requirements do not always minimize costs. Specifically:

Increased use of staffing agencies. While the Living Centers saw an overall decline in the number of state employees between Fiscal Years 2019 and 2024, the Living Centers tended to rely more on staffing agencies during the period. This practice compounds the issue of excessive personnel costs because utilizing agency staff is about two to three times more expensive than using state employees, according to Division management. The total costs in the Other Personal Services category, which includes the expenditures for agency staff, have increased from $1.8 million in Fiscal Year 2019 to $6.2 million in Fiscal Year 2024, an increase of approximately 244 percent.

Exhibit 17 – Colorado Veterans Community Living Centers' Employee and Other Personal Service Cost as % of Total Personnel Cost

	2019		2024		Total	
Personnel Cost	$ in Millions	% of total	$ in Millions	% of total	$ in Millions	% Change
State Employee Cost	$37.28	95.4%	$43.2	87.4%	$5.92	15.9%
Other Personal Services Cost	$1.8	4.6%	$6.2	12.6%	$4.40	244.4%
Total Personnel Cost	$39.08	100.0%	$49.4	100.0%	$10.32	26.4%

Source: Created by MGT from data provided by the Division

Increased PPD requirement in COWINS agreement. As noted previously, the Department has a collective bargaining agreement with the state employees' union, COWINS, that established a PPD requirement of 3.78 beginning in January 2023. This agreement is a legally binding agreement between the State and the union that establishes requirements for all covered employees. The PPD likely also contributed to the growth in staffing costs for Fiscal Year 2023 through 2024 since this PPD is higher than those required under state and federal guidelines at the time, which had PPD staffing requirements of 2.0 and 2.5, respectively.

Division management stated that the 3.78 PPD requirement was determined based on pending regulatory changes proposed by CMS and the Federal government, which aimed

to establish minimum staffing standards projected to be finalized at a 4.0 PPD requirement. During the process, several lower PPD targets were announced, and it was during this period that the Division agreed on the 3.78 staffing requirement based on those proposals. The CMS final rule establishing a 3.48 PPD requirement was issued on April 22, 2024, with a phased rollout period of one year for Living Centers in an urban area and two years for Living Centers located in a rural area.

Why does this problem matter?

Controlling labor costs is critical because they represent the single largest expense for the Living Centers, making up about 77 percent of total operating expenses in Fiscal Year 2024. When the Living Centers incur excessive staffing costs during low census periods, it indicates a risk that some of those costs are unnecessary and thereby negatively affect the Living Centers' ability to invest in other areas, such as facility maintenance, program development, or growth. With fewer residents, the need for services like nursing care, dietary services, and housekeeping decreases. Unnecessary staffing costs could lead to a greater reliance on state and local funding for the Living Centers and contribute to net operating losses, both of which could threaten their enterprise status. Overall, the disparity between declining resident census and increasing personnel costs raises concerns about the financial sustainability of the Living Centers. Due to these financial concerns, the Living Centers announced a reduction of up to 49 staff in October 2024.

In addition, while it is essential for the Living Centers to meet and/or exceed minimum PPD requirements, the Living Centers' current required PPD under the COWINS agreement is higher than state and federal required PPD levels and, thus, requires higher staffing levels and results in additional labor costs. The Division should analyze the reasons for the differences and use the analysis to inform its future negotiations with its union. This could include taking steps to align its PPD requirement to better align with federal and state requirements.

Recommendation No. 3:

The Department of Human Services' Division of Veterans Community Living Centers should ensure that the various Living Centers develop written processes for forecasting staffing needs, including processes to account for changes in staffing for levels of acuity and patient census. As part of developing the written processes, the Living Centers should evaluate resident census

trends, permanent employee staffing and vacancy rates, the historical use of temporary employees and agency staffing, and state- and federally-required patient per day staffing level information; this evaluation should also be utilized to inform the Division's future negotiations with the labor union.

Department of Human Services Response:

Agree
Implementation Date: April 2025.

The Division agrees with this recommendation, and were in discussions with the union for a readjustment of staffing requirements to align with the most stringent per patient per day (PPD) staffing requirement that was approved in November 2024 to allow the facility to staff based on census, acuity and resident needs versus a static PPD requirement. The future negotiations with the labor union will focus on what is regulatory required for staffing levels. In terms of a written process, the facility is bound by State and Federal regulations set forth by Centers for Medicare Services, Veterans Affairs and the Colorado Department of Public Health and Environment; these are the guidance documents that dictate the minimum requirements of participation. Uncontrollable factors such as changing medical needs/increase of acuity needs of the residents who are served, increases in federally/state protected medical leave, increase in on the job injuries requiring modified duties as well as any changes in guiding regulations, this process would be duplicative of the guidance issued. A staffing forecast is completed annually within the budget tool to ensure that based on current/projected census/occupancy and the assumptions of acuity, it identifies the total number of staff based on a PPD in the direct care positions with an average PPD number. What has not occurred in the past is utilization of temporary staff that are hired into the building with 9 months length of service. A new standard process for the budgeting procedure will be developed, trained and implemented.

Geographic Areas

Placing Living Centers near where veterans and their families reside helps ensure residents can stay closely connected to their loved ones while receiving the necessary care and support. The Living Centers are strategically located in Aurora (Fitzsimons), Florence (McCandless), Monte Vista (Homelake), and Rifle (Rifle), to serve veterans from various parts of the State.

FINDING 4: SURROUNDING AREAS

Assessing the demand in the geographic areas where the Living Centers function is essential to ensuring that budgeted census goals are realistic.

What audit work was performed and what was the purpose?

We reviewed Division Policy No. BUS B101 – *Preparation of the Annual Budget*, to understand the process implemented by the Division for budget preparation. We interviewed Division and Center staff to understand how each Living Center's geographic location is considered within the budgeting process and the strategies used to increase demand at each Living Center. We reviewed and analyzed census goals data and operating budgets from 2019 through 2024 to determine how the demand for residential care in the geographic locations of each Living Center was considered during the budget process.

Additionally, we obtained and reviewed the Colorado Veterans Community Living Centers Need Assessment report prepared by the Colorado Health Institute in January 2021. The report is a comprehensive report commissioned by the Department to identify the needs of veteran populations throughout Colorado. We compared geographic data (i.e., veterans who are over 65 years old) in the report to census data to determine if there is a correlation between the resident census goals and the number of veterans who are 65 and over in nearby areas. We conducted a search of nursing homes and similar living facilities in the surrounding areas of the Living Centers to gain an understanding of the number of other facilities the Living Centers are competing against for new residents.

The purpose of our test work in this area was to determine whether the Division considered the demand for residential care services in the geographic areas the Living Centers are located in as part of its budgeting process to ensure that each Living Center is generating enough revenue to be self-sustaining and developed strategies for increasing that demand.

How were the results of the audit work measured?

A best practice for a budget process includes an analysis of the veteran population within the Living Center’s geographic area. This analysis should be used to forecast demand for services

and to allocate resources accordingly. Additionally, the Living Centers should be operating in a manner that is business-like with the goal of generating sufficient revenue to be self-sustaining.

What problem did the audit work identify?

The Living Centers consider their geographic location and the demographics of the surrounding area during the budgeting process; however, these factors are not tied to resident census targets that ensure each Living Center is self-sufficient. As shown in Exhibit 18, there is a not a significant correlation between the established census goals and the number of veterans aged 65 and over within a 60-minute drive.

Exhibit 18 – Fiscal Year 2024 Census Goals and Veterans 65+ Within a 60-minute Drive

Living Center	Fiscal Year 2024 Census Goals	Goal as a Percentage of Veterans within a 60-Minute Drive	Veterans 65+ Within a 60-Minute Drive*
Bruce McCandless	57	.21%	27,145
Fitzsimons	132	.15%	85,988
Homelake SNF**	43	2.29%	1,880
Rifle	59	.83%	7,071

Source: Created by MGT from census data provided by the Division
*-Data extracted from the Colorado Veterans Community Living Centers Needs Assessment January 2021 report.
**-Homelake Skilled Nursing Facility.

Competition in the geographic area has a significant impact on the ability of the Living Centers to meet their census goals. Living Centers located in areas with larger populations of potential residents may encounter significant competition from other nearby service providers. The Living Centers with the largest population of potential residents within a reasonable distance, such as Fitzsimons and Bruce McCandless, have 16 and 19 competing facilities, respectively, nearby. Unlike the Living Centers, competitors are not restricted to admitting only veterans, spouses of veterans, and gold star parents.

Why did this problem occur?

The Division focuses the budgeted resident census goals on prior years' trends; however, the goals do not take into consideration nearby potential residents. While it is appropriate to set goals based on prior years' trends and plans to generate sufficient revenues to ensure the Living Centers can sustain their operations, evaluating the surrounding veterans population can help

ensure that the goals are met by targeting the needs and preferences of the nearby potential residents.

As recommended in the Colorado Health Institute Needs Assessment Report, the Division has taken steps to maximize connections at the Living Centers, including developing partnerships with VA providers such as Veteran Services Offices. Each county in Colorado has a Veteran Services Office dedicated to providing support and resources to veterans, their families, and dependents. Veterans Service Offices help with claims, applications, and appeals to the VA. As previously noted, the Living Centers have recently taken steps to rebuild their marketing presence by focusing on referral sources, such as VA hospitals, medical clinics, non-VA hospitals, and places where veterans congregate. However, these efforts have not yet led to a sufficient increase in the average resident census for the Living Centers to be self-sustaining.

Why does this problem matter?

Assessing the veterans residing within the geographic area of each facility would help ensure that census goals are set appropriately. Additionally, the assessment can inform Department and Division decisions to close or open Living Centers or provide additional services. These Living Centers are a vital support network for veterans and their families. When a Living Center struggles to remain financially viable, it risks closure or consolidation, which could force veterans to seek care far from their homes, families, and communities.

Additionally, by incorporating data on the surrounding population into the goal-setting process, the Division can tailor its outreach and services more effectively. This targeted approach not only helps in achieving higher census goals but also ensures that the Living Centers are addressing the actual demand within their community.

Recommendation No. 4:

The Department of Human Services' Division of Veterans Community Living Centers (Division) should consider including an evaluation of the veteran population in proximity to the State's various Living Centers to identify the needs and preferences of potential residents when setting resident census goals. Additionally, the Division should continue its efforts to develop partnerships with community providers and Veterans Service Offices to increase referrals.

Department of Human Services Response:

Partially Agree
Implementation Date: March 2026.

The division partially agrees with this recommendation. The Division has increased attention to marketing, community relations and building partnerships with Veteran centric organizations. Much of this was halted due to the pandemic and these organizations not allowing external vendors or staff in locations. Additionally this is further acknowledged in Recommendation 1. Also in our evaluation of resident preferences/needs of veterans, is the addition of the acceptance of Medicare Advantage Plans. The Division disagrees with the consideration of evaluation of the veteran population in proximity. As the audit report shows there is an increase in competition to the two locations with the highest population of veterans (113K) there are also 35 competing facilities allowing veterans more choices in where they choose to live. Finally due to the age of our homes and having the buildings constructed for dual occupancy, without a planned reduction in census and staff necessary this is not an achievable intervention to meet the changing population at this time. There are other challenges besides the marketing efforts. Many hospitals are entering into preferred partnerships under Medicare rules where there is risk sharing and metrics/accountability measures based upon referral acceptance. As the VCLC's are not able to accept every resident that would be referred, specifically non-veteran residents, the VCLC will not be part of these networks and will rely on resident choice to drive these referrals to each VCLC. This will be accomplished in focusing marketing efforts to service organizations as well as veterans/families directly.

AUDITOR'S ADDENDUM

The closeness and involvement with family are associated with a sense of comfort in a nursing home environment. This sense of home is one of the factors that significantly influences the residents' experience and well-being in nursing homes. Consequently, it is a best practice for the Living Centers to consider the surrounding population when establishing census goals. This approach helps ensure that the facility can effectively meet the needs of the local veteran community and optimize resource allocation. Accordingly, we continue to recommend that the Division evaluate the veteran population to identify the needs and preferences of potential residents in proximity to the Living Centers.

Appendix

The use of financial ratios allows government enterprise funds to assess their operational performance, debt management, liquidity, and long-term sustainability. Strong financial ratios typically signal sound fiscal management, while weaker ratios could indicate potential financial issues that need addressing to ensure the enterprise fund remains sustainable.

We utilized the Living Centers' income statements and statements of net positions for Fiscal Years 2019 through 2024 to assess the financial condition of each Living Center. The financial analysis used seven ratios to assess the Living Centers' financial health. The seven ratios are described in this Appendix.

Ratio 1: Asset Sufficiency Ratio (ASR). This ratio is used to measure the ability of each Living Center's assets to cover its liabilities. The formula for this ratio is:

ASR Formula
Total Assets + Deferred Outflows
÷
Total Liabilities + Deferred Inflows

Benchmark: ASR greater than 1.0, which indicates the Living Center has more than enough assets to cover its liabilities. An ASR less than 1.0 indicates that the Living Center does not have enough assets to cover its liabilities, which could signal potential solvency issues or financial distress.

Results: Overall, the ASR shows that the Living Centers currently do not have sufficient assets to cover their obligations. Specifically, as Exhibit A1 illustrates, only Homelake had an ASR greater than 1 in Fiscal Year 2024. The trend in this ratio shows improvement across Fiscal Years 2022 through 2024 for Fitzsimons and Homelake, but not for McCandless or Rifle.

Exhibit A1: Asset Sufficiency Ratio – Benchmark: 1.0

Facility	2024	2023	2022	2021	2020	2019
All Facilities	0.52	0.48	0.46	0.57	0.57	0.50
McCandless	0.43	0.48	0.59	0.68	0.54	0.45
Fitzsimons	0.76	0.67	0.53	0.60	0.69	0.61
Homelake (domiciliary cottages)	a	a	a	1.75	1.63	1.50
Homelake SNF*	1.01	0.81	0.82	0.89	0.81	0.68
Rifle Living Center	(0.34)	(0.16)	(0.07)	0.02	0.05	0.13

Source: Created by MGT from census data provided by the Division
*-Homelake Skilled Nursing Facility.
[a] A separate Statement of Net Position was not prepared for Homelake Domiciliary for Fiscal Years 2022 through 2024.

Ratio 2: Operating Reserve Ratio (ORR). This ratio measures the period of time (with 1.0 equaling 1 year) the Living Centers' fund balance reserves will suffice to cover future expenses. The ratio helps to assess financial stability and the ability to sustain operations in the event of unexpected revenue shortfalls. The formula for this ratio is:

ORR Formula
Fund Balance
÷
Total Expenses (net of transfers)

Benchmark: ORR of 0.0768 (1/12 of a year), which provides funds for no less than 1 month of regular expenses. Higher ratios indicate a stronger financial position with more months or years of operating expenses covered by reserves. Lower ratios are indicative of organizations that may struggle to maintain operations in the event of revenue declines or unexpected costs.

Results: Exhibit A2 shows that, primarily due to carrying forward negative balances in the Living Center Fund Balance accounts, overall, the Living Centers currently do not meet the benchmark. Individually, only the Homelake Domiciliary met the benchmark in any of the years analyzed (Fiscal Years 2019 through 2021). However, the trend in this ratio shows improvement across Fiscal Years 2022 through 2024. As the Living Centers bill for patient care monthly, an operating reserve ratio of 0.0768, equal to one month's expenses, is necessary to ensure operating costs can be covered between billing cycles.

Exhibit A2: Operating Reserve Ratio – Benchmark: 0.0768

Facility	2024	2023	2022	2021	2020	2019
All Facilities	(0.77)	(0.94)	(1.19)	(1.17)	(1.35)	(1.74)
McCandless	(1.01)	(1.06)	(1.12)	(0.94)	(1.56)	(2.16)
Fitzsimons	(0.39)	(0.61)	(0.96)	(1.13)	(1.01)	(1.41)
Homelake Domiciliary	a	a	a	1.32	1.12	2.11
Homelake SNF*	0.01	(0.29)	(0.36)	(0.23)	(0.39)	(0.70)
Rifle	(2.14)	(2.36)	(2.79)	(3.06)	(3.52)	(3.33)

Source: Created by MGT from census data provided by the Division
*-Homelake Skilled Nursing Facility.
[a] A separate Statement of Net Position was not prepared for Homelake Domiciliary for Fiscal Years 2022 through 2024.

Ratio 3: Operating Margin Ratio (OMR). The OMR measures the efficiency of the Living Centers' operations. It indicates the percentage of the Living Centers' revenue that is left over after paying their operating costs. The formula for this ratio is:

OMR Formula
Total Revenue – Total Expenses (net of transfers)
÷
Total Revenue

Benchmark: OMR of 0, which indicates that the Living Center has equal revenue and expenses. An OMR greater than 0 is positive and indicates that the Living Center has more revenue than expenses; an OMR of less than 0 means that the Living Center has more expenses than revenues.

Results: Overall, the OMR shows that the Living Centers' expenses are slightly greater than their revenues in recent years. Similar to the ORR, the trend in this ratio shows improvement across Fiscal Years 2022 through 2024, and two Living Centers – Fitzsimons and Homelake SNG - had revenues that exceeded their expenses in Fiscal Year 2024.

Exhibit A3: Operating Margin Ratio – Benchmark: 0

Facility	2024	2023	2022	2021	2020	2019
All Facilities	(0.01)	(0.22)	(0.17)	0.16	0.29	0.19
McCandless Living Center	(0.16)	(0.46)	(0.22)	0.29	0.35	0.25
Fitzsimons Living Center	0.04	(0.18)	(0.11)	0.12	0.31	0.23
Homelake Domiciliary	(0.10)	(0.27)	(0.21)	0.12	(0.07)	0.45
Homelake SNF*	0.08	(0.16)	(0.19)	0.10	0.18	(0.06)
Rifle Living Center	(0.03)	(0.15)	(0.30)	0.09	0.27	0.13

Source: Created by MGT from census data provided by the Division
*-Homelake Skilled Nursing Facility.

Ratio 4: Change in Fund Balance Ratio (CFBR). The CFBR indicates whether a Living Center's fund balance is increasing or decreasing. The formula for this ratio is:

CFBR Formula
Current Year Fund Balance – Prior Year Fund Balance
÷
Prior Year Fund Balance

Benchmark: CFBR of 0, which indicates that the fund balance has not changed from the prior year. A positive change in the CFBR indicates that the fund balance is increasing.

Results: The CFBR shows that in total and individually, the Living Centers met the benchmark in Fiscal Year 2024. The Living Centers have shown positive growth in Fiscal Years 2023 and 2024. While the overall fund balance remains in a deficit, as reflected in Exhibit A4 of this report, the change in fund balance ratio increased by 11 percent between Fiscal Years 2023 and 2024. This increase in the change in fund balance ratio was due to the fund balance deficit decreasing by approximately $12 million.

Exhibit A4: Change in Fund Balance Ratio – Benchmark: 0

Facility	2024	2023	2022	2021	2020	2019
All Facilities	22%	11%	-18%	6%	28%	16%
McCandless Living Center	13%	-6%	-30%	34%	32%	13%
Fitzsimons Living Center	38%	28%	-5%	-24%	35%	20%
Homelake Domiciliary	a	a	a	18%	9%	7%
Homelake SNF*	104%	18%	-62%	41%	46%	16%
Rifle Living Center	9%	3%	-11%	6%	11%	6%

Source: Created by MGT from census data provided by the Division
*-Homelake Skilled Nursing Facility.
[a] A separate Statement of Net Position was not prepared for Homelake Domiciliary for Fiscal Years 2022 through 2024.

Ratio 5: Cash to Liability Ratio (CLR). The CLR measures the Living Centers' liquidity by comparing their cash and cash equivalents to total liabilities. The ratio helps assess the ability of the Living Centers to cover their obligations using their most liquid assets. The formula for this ratio is:

CLR Formula
Cash and Cash Equivalents
÷
Total Liabilities

Benchmark: CLR of 1.0, which indicates that the Living Center has enough cash and cash equivalents to pay off all short-term debts entirely. A ratio under 0.5 is considered risky as the Living Center would have twice as much short-term debt as cash.

Results: Overall, the CLR shows that the Living Centers, collectively, are in a stable financial position with an overall CLR of more than 1.0 each year except 2023. Specifically, as Exhibit A5 illustrates, only Rifle Living Center had a ratio below 1.0 each year with consistent decreases across fiscal years. The overall trend in this ratio shows a significant decrease, between Fiscal Years 2021 and 2024, but slight improvement between Fiscal Years 2023 and 2024.

Exhibit A5: Cash to Liability Ratio – Benchmark: 1

Facility	2024	2023	2022	2021	2020	2019
All Facilities	1.08	0.79	2.34	5.15	3.95	5.29
McCandless	3.11	2.05	4.52	7.34	5.11	5.30
Fitzsimons	2.15	1.71	4.89	12.27	5.49	7.05
Homelake Domiciliary	a	a	a	3.89	1.73	12.19
Homelake SNF*	5.94	4.79	5.14	7.07	4.81	15.61
Rifle	(13.10)	(4.32)	(6.63)	(7.23)	(4.49)	(3.33)

Source: Created by MGT from census data provided by the Division
*-Homelake Skilled Nursing Facility.
[a] A separate Statement of Net Position was not prepared for Homelake Domiciliary for Fiscal Years 2022 through 2024.

Ratio 6: Current Ratio (CR). The CR measures the ability of the Living Centers to meet their short-term liabilities with short-term assets. The CR provides insight into whether the Living Centers have enough resources to pay their obligations over the next 12 months. The formula for this ratio is:

CR Formula
Current Assets
÷
Current Liabilities

Benchmark: CR of 1.0, which indicates that the Living Center has just enough current assets to cover its current liabilities. A CR below 1.0 indicates that the Living Center cannot cover its current liabilities at a point in time.

Results: Overall, the CR shows that the Living Centers have sufficient current assets to meet their current obligations. Specifically, as Exhibit A6 illustrates, only Rifle did not meet this benchmark. Similar to other ratios, there was a significant decline between Fiscal Years 2022 and 2023; however, the ratio recovered slightly between Fiscal Years 2023 and 2024.

Exhibit A6: Current Ratio – Benchmark: 1

Facility	2024	2023	2022	2021	2020	2019
All Facilities	1.82	1.45	3.29	6.37	4.77	6.44
McCandless	4.22	2.68	5.08	7.99	5.79	6.14
Fitzsimons	2.71	2.45	6.74	16.00	6.63	8.42
Homelake Domiciliary	a	a	a	4.28	2.13	10.31
Homelake SNF*	6.67	5.80	5.55	7.53	5.25	17.98
Rifle	(11.65)	(3.94)	(5.99)	(6.51)	(3.72)	(2.57)

Source: Created by MGT from census data provided by the Division
*-Homelake Skilled Nursing Facility.
[a] A separate Statement of Net Position was not prepared for Homelake Domiciliary for Fiscal Years 2022 through 2024.

Ratio 7: Days Cash on Hand (DCH). The DCH measures the number of days the Living Centers can operate using available cash and cash equivalents, without needing additional revenue. The formula for this ratio is:

DCH Formula
Cash and Cash Equivalents
÷
(Operating Expenses – Non-Cash Expenses)/365*
*or the total days in the accounting period.

Benchmark: 45-180 days. A DCH of less than 45 days could indicate that the Living Center does not have sufficient cash to meet its obligations, whereas a DCH above 180 days could indicate that the Living Center is not effective at managing its cash and maximizing interest earnings.

Results: Overall, the DCH shows that the Living Centers have sufficient cash on hand to cover their obligations. Specifically, as Exhibit A7 illustrates, only Rifle had a DCH below the benchmark. The overall trend in this measure shows improvement between Fiscal Years 2023 through 2024; however, the ratios for McCandless and Rifle show decreases across this same time period.

Exhibit A7: Days Cash on Hand – Benchmark: 45-180 Days

Facility	2024	2023	2022	2021	2020	2019
All Facilities	56	52	99	181	264	224
McCandless	103	155	291	405	430	328
Fitzsimons	151	111	133	194	338	298
Homelake Domiciliary	a	a	a	132	68	203
Homelake SNF*	329	221	294	382	391	290
Rifle	(407)	(341)	(356)	(323)	(225)	(132)

Source: Created by MGT from census data provided by the Division
*-Homelake Skilled Nursing Facility.
[a] A separate Statement of Net Position was not prepared for Homelake Domiciliary for Fiscal Years 2022 through 2024.