

# Report Highlights

## Why DLA Performed This Audit

In an effort to address concerns over the costs of operating the Alaska pioneer homes, an audit of the agency was requested. This audit examines the division's operating costs and effectiveness of cost containment efforts, DHSS' Medicaid waiver rate setting methodology, and the status of the prior audit recommendations. The audit was also directed to compare the degree of care required by residents in privately-owned assisted living homes to the degree of care required by residents in pioneer homes.

## What DLA Recommends

1. DAPH's director should obtain assistance from DHSS' Financial Management Services accountants to properly deploy QuickBooks so that it can correctly function as a subsidiary accounting system.
2. DAPH management should allocate resources to actively pursue collection of past due amounts.
3. DAPH management should enforce all requirements for the payment assistance program.
4. DAPH's director should discontinue unauthorized grants to pioneer home residents.
5. DHSS' commissioner should annually review the pioneer homes' monthly rates.
6. DAPH's director should ensure all pioneer homes comply with the pharmacy's policies for controlled substances.

# A Performance Audit of the Department of Health and Social Services (DHSS), Division of Alaska Pioneer Homes (DAPH)

May 21, 2015

Audit Control Number 06-30077-15

## REPORT CONCLUSIONS

This audit concludes that pioneer homes are heavily subsidized by the State's general fund. Total general fund subsidy for the five-year period, FY 10 through FY 14, was \$191.7 million. Monthly resident rates have not been reviewed for adequacy since FY 09.

Except for pharmacy operations, the audit found a general lack of fiscal accountability in administering the pioneer homes and a lack of efforts toward containing costs. Efforts to collect accounts receivable were minimal, and staff did not have an accurate accounting of amounts owed by residents. The audit also found certain grants made to residents were not within DAPH's statutory authority. Furthermore, pioneer homes residents were allowed to apply and receive general funded payment assistance without first applying for payment assistance through Medicaid. No formal analysis has been conducted to ensure staffing levels are reasonable and efficient.

The methodology for establishing the proposed Medicaid reimbursement rate was reviewed and found to be consistently applied and capture all allowable costs.

The prior 1999 pioneer homes audit report<sup>1</sup> contained seven recommendations. Five of the seven recommendations were implemented or resolved. The prior recommendation regarding compliance with federal regulations in the handling of controlled substances was partially implemented. The pioneer homes' pharmacist established procedures for tracking prescribed controlled substances, including those sent to each home. However, the Sitka Pioneer Home registered nurse has not complied with these procedures. The prior recommendation directing the DAPH director to select the most effective method of providing pharmacy services to residents was not addressed. However, audit fieldwork found no compelling reason to privatize pharmacy operations.

<sup>1</sup>Department of Administration, Division of Alaska Longevity Programs, Alaska Pioneers' Home, October 8, 1999, Audit Control Number 02-4591-00.

## A Performance Audit of the Department of Health and Social Services (DHSS), Division of Alaska Pioneer Homes (DAPH)

May 21, 2015

Audit Control Number 06-30077-15

### REPORT CONCLUSIONS (Continued)

The audit was unable to examine the degree of care required for residents in the privately-owned assisted living homes due to the confidentiality requirements of the *Health Insurance Portability and Accountability Act* and the lack of authority to examine the records of privately-owned homes. However, the audit did compare the average age of pioneer homes residents to the average age of residents of private assisted living homes with more than 17 beds. Pioneer homes residents' average age was 86 years, compared to private homes residents' average age of 80 years.

# ALASKA STATE LEGISLATURE

LEGISLATIVE BUDGET AND AUDIT COMMITTEE

Division of Legislative Audit



P.O. Box 113300  
Juneau, AK 99811-3300  
(907) 465-3830  
FAX (907) 465-2347  
legaudit@akleg.gov

August 31, 2015

Members of the Legislative Budget  
and Audit Committee:

In accordance with the provisions of Title 24 of the Alaska Statutes, the  
attached report is submitted for your review.

DEPARTMENT OF HEALTH AND SOCIAL SERVICES  
DIVISION OF ALASKA PIONEER HOMES

May 21, 2015

Audit Control Number  
06-30077-15

This audit examines the division's operating costs, effectiveness of cost  
containment efforts, the Department of Health and Social Services'  
Medicaid waiver rate setting methodology, and the status of the prior  
audit recommendations.

The audit was conducted in accordance with generally accepted  
government auditing standards. Those standards require that we plan  
and perform the audit to obtain sufficient, appropriate evidence to  
provide a reasonable basis for our findings and conclusions based on  
our audit objectives. We believe that the evidence obtained provides  
a reasonable basis for our findings and conclusions based on our audit  
objectives. Fieldwork procedures utilized in the course of developing  
the findings and recommendations presented in this report are  
discussed in the Objectives, Scope, and Methodology.

A handwritten signature in blue ink, appearing to read "Kris Curtis".

Kris Curtis, CPA, CISA  
Legislative Auditor

## ABBREVIATIONS

---

AAC	Alaska Administrative Code
ACN	Audit Control Number
ALH	Assisted Living Homes
API	Alaska Psychiatric Institute
AS	Alaska Statute
board	Alaska Pioneers' Homes Advisory Board
CISA	Certified Information Systems Auditor
CPA	Certified Public Accountant
DAPH	Division of Alaska Pioneer Homes
DHSS	Department of Health and Social Services
DLA	Division of Legislative Audit
DOC	Department of Corrections
FFY	Federal Fiscal Year
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
NF	Nursing Facilities
ORR	Office of Rate Review
RCC	Residential Care Communities

---

# CONTENTS

---

<b>Report Sections</b>	Organization and Function	1
	Background Information	3
	Report Conclusions	9
	Findings and Recommendations	21
	Objectives, Scope, and Methodology	27
<b>Appendices</b>	Appendices Summary	33
	Appendix A	35
	Table 1: Alaska Pioneer Homes Operating Expenditures for the period FY 10 through FY 14	35
	Table 2: Alaska Pioneer Homes Revenues for the period FY 10 through FY 14	35
	Table 3: Alaska Pioneer Homes Pharmacy Operating Expenditures for the period FY 10 through FY 14	36
	Table 4: Alaska Pioneer Homes Pharmacy Revenues for the period FY 10 through FY 14	36
	Appendix B: Status of Prior Alaska Pioneer Home Audit Recommendations	37
<b>Agency Response</b>	Department of Health and Social Services	39

---

# CONTENTS

## (Continued)

---

<b>Exhibits</b>	Exhibit 1: Alaska Pioneer Homes Service Levels and Rates	5
	Exhibit 2: Alaska Pioneer Homes Expenditures, Revenues, and General Fund Subsidy FY 10 through FY 14	11
	Exhibit 3: Alaska Pioneer Homes General Fund Subsidy per Bed	12
	Exhibit 4: Alaska Pioneer Homes Hours of Care per Resident (by Location) Compared to National Benchmarks	13
	Exhibit 5: Alaska Pioneer Homes FY 14 Monthly Costs Compared to Monthly Rates	15
	Exhibit 6: Alaska Pioneer Homes Residential Supported Living Rates	17

---

# ORGANIZATION AND FUNCTION

---

The Alaska pioneer home system began more than a century ago with the establishment of the Sitka Pioneer Home in 1913. The current system consists of six pioneer homes, with the Palmer home also certified as a veterans home. The system contains 499 total licensed beds in the following locations:

- Palmer (79 beds)
- Anchorage (168 beds)
- Fairbanks (93 beds)
- Juneau (48 beds)
- Ketchikan (46 beds)
- Sitka (65 beds)

The pioneer home system is collaboratively managed and operated by Division of Alaska Pioneer Homes (DAPH) staff, administrators in each home, and the Alaska Pioneers' Homes Advisory Board (board). The FY 15 budget for managing, operating, and maintaining the pioneer homes, including the pharmacy, totaled \$64 million and authorized 647 positions. Authorized positions include direct-care staff (i.e. nurses and assisted living aides) as well as support staff (i.e. food service staff, maintenance staff, and fiscal staff).

## Division of Alaska Pioneer Homes

Under AS 47.55, the Department of Health and Social Services is charged with administering the homes. The statute specifies:

*The department may employ the necessary subordinate officers and employees, and shall prescribe methods for operation of the homes, standards of care and service to home residents, and rules governing personnel. The methods for operation and standards of care and services to residents prescribed under this subsection shall be the same as the methods for operation and standards of care established by the department for an assisted living home licensed under AS 47.32.*

---

DAPH employs a management team consisting of a division director, six pioneer home administrators, a social services program coordinator, an administrative operations manager, and a lead pharmacist. DAPH staff also includes nine administrative, accounting, and procurement positions, and two student intern positions.

Each of the six pioneer homes is managed by an administrator, who is appointed by the governor. Pioneer homes direct-care staff include 65 registered nurses, 36 licensed practical nurses, 273 certified nurse aides, and 24 assisted living aides.

## **Alaska Pioneers' Homes Advisory Board**

Alaska Statute 44.29.500 establishes the board, whose mission is to conduct annual inspections of the pioneer homes' procedures, including admission procedures, and properties. Based on those inspections, the board recommends changes and improvements to the governor. Additionally, the board is required to hear public testimony from residents and interested parties during its annual home inspections.

The board is comprised of eight members. Six are appointed by the governor, with one of the six being a veteran of active military service. The chair of the Alaska Commission on Aging and the chair of the Alaska Veterans Advisory Council make up the remaining two members. Each member serves a four-year term, and may serve a second term.

## **Pioneer Home Pharmacy**

The pioneer home pharmacy was established in 1998 to address concerns about the safety and distribution of residents' medications. The pioneer home pharmacy is licensed by the State Board of Pharmacy and subject to state and federal regulations. It is physically located within the Anchorage Pioneer Home, but packages and distributes pharmaceuticals to all six homes. Pharmacy staff include two licensed pharmacists, three pharmacy technicians, and one billing clerk.



---

## BACKGROUND INFORMATION

---

### **Purpose and services offered have changed considerably over the past 30 years.**

The pioneer homes provide residential, nursing, and pharmaceutical services to qualified Alaskans aged 65 and older.

The population served by the pioneer homes has significantly changed since the homes were established. Prior to 1992, eligibility for admittance was limited to long-term Alaskan residents.<sup>2</sup> However in 1992, the long residency requirement was struck down by the courts as unconstitutional, requiring the division to adopt a one-year state residency requirement for pioneer home applicants.

The early 1990s was also a time when services became available in the community that helped elder Alaskans remain at home. The services delayed many Alaskans' admittance to the pioneer homes and the average age of admittance increased from 75 years in the late 1980s to 82 years in 1994.

During the same time period, the need for facility care and treatment of elders with Alzheimer's and other dementia diseases was increasing. In recognition of this need, the pioneer homes' licensure was converted in 1996 from skilled nursing facilities to assisted living homes, a social model of long-term care that emphasizes the residents' abilities while providing for medical and end of life support and care.

The demographics of pioneer home residents continue to change as Alaska's population ages. According to Division of Alaska Pioneer Homes (DAPH) management, the pioneer homes currently serve a greater proportion of high acuity<sup>3</sup> residents than they have in the past. DAPH management stated that 56 percent of current residents require the highest level of care. The average age of residents is 86 years.

The homes currently provide a level of care that is higher than what is usually found in residential settings, yet lower than the level of care in skilled nursing facilities.

---

<sup>2</sup>Prior to 1992, the residency requirement fluctuated between 5 and 25 years. In 1992, the requirement was 15 years.

<sup>3</sup>*Acuity* is a term used to denote the level of severity of a patient's condition and, consequently, the amount of care the patient requires.

---

---

**Residents are assigned to one of three service levels of care.**

Regulations require an assessment of each pioneer home applicant in order to identify the appropriate services for the individual. The assessment is documented as part of the residents' assisted living plan and drives the level of care for each resident. Reassessments are conducted at least annually. Levels are defined based on the type, number, and severity of daily living activity limitations, medical needs, cognition impairments, and challenging behaviors.

Exhibit 1 describes the pioneer homes service levels as defined in Alaska regulation 7 AAC 74.010 and shows the monthly rate established by 7 AAC 74.025. Homes may also provide day services and respite care at a daily rate as shown in the Exhibit.

**Medicaid waivers pay qualifying residents' service fees.**

Medicaid is a federal entitlement program administered by the State that pays for medical services for low-income citizens. Program eligibility is obtained by meeting federally and state-set income and asset standards for specific services. The pioneer homes provide services for Medicaid-eligible residents under a Medicaid waiver.<sup>4</sup> Medicaid waiver program applicants must require the level of care provided in a nursing facility. As of June 30, 2014, 76 of 461 residents were receiving Medicaid waiver benefits, according to DAPH records. As a Medicaid provider, the pioneer homes are reimbursed for services at the rate established by the Department of Health and Social Services (DHSS).

**DHSS Medicaid regulations and rate setting methodology changed in 2011.**

In 2011, DHSS adopted regulations that changed the rate setting process for Medicaid waiver services from a budget-based system to a cost-based system. The new system was designed to periodically link the actual cost of providing a service to the reimbursement rate for that service.

Under regulation 7 AAC 145.531(e), providers submit annual cost reports to DHSS' Office of Rate Review (ORR). Concurrent with

---

<sup>4</sup>Home and community-based waiver program Alaskans Living Independently covers an array of services including nursing oversight and care management, care coordination, and residential supported living. Under this waiver, Medicaid-eligible individuals with physical disabilities or functional needs associated with aging, who otherwise would reside in a skilled nursing facility, have the option of remaining in their homes or in a home-like setting (such as an assisted living home).

---

**Exhibit 1**

---

**Alaska Pioneer Homes  
Service Levels and Rates**

Service Level	Services Included	Rates
I	Provision of housing, meals, emergency assistance, and opportunities for recreation.	\$2,350 per month
II	Provision of housing, meals, and emergency assistance. Staff assistance as stated in the resident's assisted living plan, including assistance with activities of daily living, medication administration, recreation, and health-related services; assistance provided by a staff member includes supervision, reminders, and hands-on assistance, with the resident performing the majority of the effort; during the night shift, the resident is independent in performing activities of daily living and capable of self-supervision.	\$4,260 per month
III	Provision of housing, meals, and emergency assistance. Staff assistance, as stated in the resident's assisted living plan, including assistance with activities of daily living, medication administration, recreation, and health-related services; assistance provided by a staff member includes hands-on assistance, with the staff member performing the majority of the effort; the resident may receive assistance throughout a 24-hour day, including the provision of care in a transitional setting.	\$6,170 per month
Day Services	Services provided in a pioneer home to a recipient who requires level III services for up to eight hours a day between 6 a.m. and 6 p.m., including meals scheduled during the period the recipient is receiving day services.	\$70 per day
Respite Services	Room and board provided in a pioneer home to a recipient who is waitlisted for a permanent bed and requires level III services for up to 14 consecutive days, 24 hours a day.	\$100 per day

---

---

the regulations published in 2011, ORR developed instructions for all service providers to supply DHSS with cost information in a uniform format. Rates, initially planned to be effective July 1, 2014, were calculated based on the cost reports submitted by providers.

In general, the rate methodology requires adjusted total costs for each facility to be divided by units of service to obtain per unit cost of service. The proposed rate calculated for the pioneer homes based on FY 12 costs was \$354.55 per day. In contrast, a privately-owned assisted living facility per unit rate was calculated at \$124.81 per day. DHSS encountered opposition by providers and the public concerning the proposed rates and the accuracy of the rate methodology. The rates were not implemented. The FY 14 daily rate for both pioneer homes and privately-owned assisted living facilities with 17 or more beds was \$155.01.

**Regulations set monthly pioneer home rates, statutes require rates be reviewed annually.**

The monthly pioneer homes rates are set in regulation, and cover room, board, and care services. Alaska statutes require the rates be reviewed annually by the DHSS commissioner, but do not require the rates be adjusted annually or cover the entire cost of providing services. Since 1996, the following rate increases were made:

- In July 1996, DHSS revised the levels of service and increased monthly rates with its change in licensure. The changes were a reflection of the Alaska Pioneers' Homes Advisory Board's seven-year plan to better align the amounts charged with the costs of care. Monthly rate increases ranged from \$199 for the lowest level of care to \$764 for the highest level of care. Similar annual increases were made in FY 98 through FY 03.
- In July 2004, the levels of service were again revised and monthly rates were increased by five percent. In July 2009, the rates were increased by an additional five percent. The July 2009 levels of service and rates have remained unchanged through FY 14. Exhibit 1, on page 5, shows the current rate for each level of service.

Pioneer home residents in need of assistance to pay their monthly

---

---

**Various forms of financial assistance are available to pioneer home residents.**

charges may apply for several assistance programs. The most prominent assistance programs are Medicaid, veterans per diem, and Alaska payment assistance.

Medicaid is a federal program available to those who meet certain federally- and state-set income and resource thresholds. Pioneer home residents may qualify for Medicaid and have their service costs paid based on a fixed daily rate set by DHSS.

The Veterans Administration pays state veterans homes an annually adjusted daily rate for each veteran in the home. For FFY 14, the daily rate was \$43.32. The Palmer Veterans and Pioneers Home is currently the only veterans home in Alaska, and the only home eligible to receive veterans' per diem payments. During FY 14, it received \$739,817 of veterans' per diem payments.

Under certain conditions, pioneer home residents or applicants may apply to DAPH for assistance to pay their pioneer home costs. Those with a living spouse in the community with less than \$98,000 in resources — or, if without a living spouse, less than \$10,000 in resources — for the 36 months prior to application may be eligible for the assistance. Alaska regulation 7 AAC 74.040(d) requires applicants for the payment assistance program apply for Medicare coverage Part A, Part B, and Part D, or equivalent medical insurance coverage from another provider. The applicant is also required to apply for Medicaid and any other state or federal program that may reduce the amount of payment assistance required.

Additionally, if legislative appropriations are sufficient and a resident receiving payment assistance does not have a monthly income of at least \$200, DAPH will pay the amount necessary to ensure a resident has a \$200 personal needs allowance.

A pioneer home resident who receives payment assistance becomes indebted to the state for the amount of the assistance. When the resident is discharged and noncash resources are liquidated, a claim for the payment assistance is filed with the individual's estate.

---

---

**Centralized State-run pharmacy serves all pioneer homes.**

Prior to 1998, pioneer home resident medications came into the homes from many different sources and in various types of packaging, making storage and administration of medications problematic. An in-house pharmacy was implemented in 1998 as a way to resolve emerging medication issues. In addition to resolving the fragmentation of delivery of medications to residents, the pharmacy addressed polypharmacy<sup>5</sup> concerns. Pharmacists review residents' clinical records and communicate concerns about medication dosages and interactions to the nursing staff.

---

<sup>5</sup>*Polypharmacy* is the use of many drugs simultaneously.

---

# REPORT CONCLUSIONS

---

This audit was requested due to concerns over the costs of operating the Alaska pioneer homes. The audit objectives include evaluating the Department of Health and Social Services (DHSS) Division of Alaska Pioneer Homes' (DAPH) operating costs and effectiveness of cost containment efforts; examining the DHSS Medicaid rate setting methodology, including the reasons for discrepancies in rates between privately-owned assisted living homes and the pioneer homes; and determining the status of prior pioneer home audit recommendations. The audit was also intended to examine the degree of care required for pioneer homes residents compared to the degree of care required for privately-owned assisted living home residents.

This audit concludes that pioneer homes are heavily subsidized by the State's general fund. Total general fund subsidy for the five-year period, FY 10 through FY 14, was \$191.7 million. Monthly resident rates have not been reviewed for adequacy since FY 09.

Except for pharmacy operations, the audit found a general lack of fiscal accountability in administering the pioneer homes and a lack of efforts toward containing costs. Efforts to collect accounts receivable were minimal and staff did not have an accurate accounting of amounts owed by residents. The audit also found certain grants made to residents were not within DAPH's statutory authority. Furthermore, pioneer home residents were allowed to apply for and receive general funded payment assistance without first applying for payment assistance through Medicaid. No formal analysis has been conducted to ensure staffing levels are reasonable and efficient.

Pioneer homes receive federal reimbursement for services provided to Medicaid waiver-eligible residents. Historically, pioneer homes and privately-owned assisted living homes have been reimbursed at the same rate. In 2013, DHSS recalculated rates using the cost-based methodology under 7 AAC 145.520(h) and proposed separate rates for pioneer homes and privately-owned assisted living homes. The methodology for establishing the proposed Medicaid reimbursement rate was reviewed and found to be consistently applied and capture all allowable costs.

---

DHSS encountered public opposition to the proposed rates and decided not to implement them. Instead of using the cost-based methodology, rates for FY 15 were established under regulation 7 AAC 145.520(g) which adjusts rates for inflation and geographical differences.

The prior 1999 pioneer homes audit report<sup>6</sup> contained seven recommendations, including five recommendations concerning the central pharmacy operations. To determine the status of the pharmacy recommendations, a consultant was hired to review current pharmacy operations. Most recommendations, including those related to the pioneer home pharmacy operations, have been implemented or otherwise resolved. The consultant found that, in general, the pharmacy met or exceeded industry best practices in regards to accounting for controlled substances and processing prescriptions.

Detailed report conclusions are presented below.

**Pioneer home operating costs are heavily subsidized by the State's general fund.**

As shown in Exhibit 2, the State's general fund significantly subsidizes the operation and maintenance of the pioneer homes. The subsidy grew from \$35 million in FY 10 to over \$41 million in FY 14. In total, the general fund expended \$191.7 million to operate and maintain the homes during the five-year period.

---

<sup>6</sup>*Department of Administration, Division of Alaska Longevity Programs, Alaska Pioneers' Home, October 8, 1999, Audit Control Number 02-4591-00.*



**Exhibit 2**

<b>Alaska Pioneer Homes Expenditures, Revenues, and General Fund Subsidy FY 10 through FY 14 (In Thousands)</b>						
	FY 10	FY 11	FY 12	FY 13	FY 14	Total
Operating Expenditures	\$55,951	\$56,283	\$58,988	\$61,127	\$61,706	\$294,055
Capital Expenditures	4,599	3,401	2,903	6,354	4,052	21,309
<b>Total Expenditures</b>	<b>60,550</b>	<b>59,684</b>	<b>61,891</b>	<b>67,481</b>	<b>65,758</b>	<b>315,364</b>
Operating Revenues	24,461	24,867	24,622	24,625	23,757	122,332
Capital Revenues	1,280	(88)	(1)	11	156	1,358
<b>Total Revenues</b>	<b>25,741</b>	<b>24,779</b>	<b>24,621</b>	<b>24,636</b>	<b>23,913</b>	<b>123,690</b>
General Fund Subsidy	\$34,809	\$34,905	\$37,270	\$42,845	\$41,845	\$191,674

A long held policy decision to support Alaskan pioneers is the historical basis for subsidized operations. However, in 1992 the courts struck down the 15-year residency requirement intended to limit benefits to pioneers. After residency was redefined as one year, the State continued to subsidize operations.

Detailed pioneer home expenditure and revenue information is presented in Appendix A. Personal services expenditures represent 80 percent of annual operating costs. Expenditures for services (primarily janitorial, laundry, and food) and commodities (primarily pharmacy drug purchases) were approximately 13 percent and 6 percent of annual expenditures, respectively. Revenues include receipts for resident services (64 percent) and pharmacy charges (11 percent). Medicaid waiver payments for Medicaid-eligible residents were 22 percent of revenues.

Exhibit 3 shows the subsidy in terms of average occupied beds. The annual subsidy per occupied bed ranged from a low of \$75,000 in FY 10 to a high of \$92,000 in FY 13. The five-year subsidy per occupied bed totaled \$414,000.

---

---

**Exhibit 3**

Alaska Pioneer Homes General Fund Subsidy per Bed						
	FY 10	FY 11	FY 12	FY 13	FY 14	Total
Total General Fund Subsidy	\$34,809,000	\$34,905,000	\$37,270,000	\$42,844,000	\$41,846,000	\$191,674,000
Average Occupied Beds	465	457	464	464	464	463
General Fund Subsidy per Bed	\$75,000	\$76,000	\$80,000	\$92,000	\$90,000	\$414,000

Over the five-year period FY 10 through FY 14, the average occupancy rate for the homes was 93 percent. According to DAPH management, challenges to maintaining full occupancy include the 30-day move-in period for eligible applicants and room repairs or maintenance required before occupancy.

**DAPH cost containment efforts have not addressed personal services.**

The pioneer homes' main cost driver is personal services, which represents just over 80 percent of total operating expenditures. The audit found no significant efforts have been made to contain personal services costs. With the exception of pharmaceutical purchasing, the audit identified no significant efforts to contain other pioneer home operating costs.

To help evaluate the reasonableness of pioneer home personal services, the audit analyzed the hours of direct-care each resident received per day in FY 14. The average pioneer homes direct-care staff hours worked per resident was calculated and compared to data from a national survey.<sup>7</sup>

The comparison of pioneer homes staff hours to national benchmarks took into consideration the pioneer homes' hybrid structure of providing some of the services offered by nursing homes, and some services offered by a residential care community (assisted living

<sup>7</sup>Centers for Disease Control and Prevention, *National Study of Long-Term Care Providers, 2012 State Web Tables*.

home). Therefore, national benchmarks for both residential care communities (RCC) and the nursing facilities (NF) were used for comparison.

As shown in Exhibit 4, average hours per day per pioneer home resident in each direct-care position exceeded the average hours for the RCC national benchmark. The hours per day per pioneer home resident also exceeded the NF benchmark for registered nurses and certified nurse aides. This comparison suggests that pioneer homes are staffed at a higher level than national benchmarks indicate is necessary. However, there may be valid reasons for the differences such as a high number of pioneer home residents with Alzheimer’s or other dementia diseases.

**Exhibit 4**

<b>Alaska Pioneer Homes</b>				
<b>Daily Hours of Care per Resident (by Location)</b>				
<b>Compared to National Benchmarks</b>				
	<b>Registered Nurse</b>	<b>Licensed Practical Nurse</b>	<b>Certified Nurse Assistant/ Assisted Living Aides</b>	<b>Social Worker</b>
<b>Pioneer Home</b>				
Anchorage	0.38	0.49	2.55	0.02
Palmer	0.85	0.40	3.28	0.06
Fairbanks	0.50	0.24	3.31	0.06
Juneau	0.33	0.46	3.82	0.11
Ketchikan	0.49	0.27	3.77	0.11
Sitka	0.82	0.09	3.19	0.16
<b>Average Pioneer Home</b>	<b>0.56</b>	<b>0.32</b>	<b>3.32</b>	<b>0.08</b>
<b>National Residential Care Communities</b>	<b>0.27</b>	<b>0.19</b>	<b>2.16</b>	<b>0.05</b>
<b>National Nursing Facilities</b>	<b>0.52</b>	<b>0.85</b>	<b>2.46</b>	<b>0.08</b>

---

---

**A pharmaceutical purchasing agreement helps contain pharmaceutical costs.**

DAPH management stated that the division has never conducted a staffing analysis. A staffing analysis examines the level and type of staff needed to efficiently fulfill an organization’s mission. A staffing analysis may lead to recommendations for adjusting staffing levels when appropriate and justified. It may also lead to recommendations for reducing duplication of effort, idle time, and other inefficiencies.

DAPH contracted with PeaceHealth, a national group purchasing organization, in an effort to reduce the cost of pharmaceutical drugs for residents. The contract, signed in 2003, requires PeaceHealth to use its best efforts to negotiate favorable prices, terms, and conditions with vendors of supplies, equipment, pharmaceuticals, foods, and services.

This audit compared the pharmaceutical prices paid by the pioneer homes for a sample of drugs to the prices paid by the Department of Corrections (DOC) and the Alaska Psychiatric Institute (API) for the same drugs.<sup>8</sup> The sample included 47 drugs most often dispensed by the pioneer homes, as well as the 25 highest cost drugs. Testing concluded that the pioneer home pharmacy, through its PeaceHealth contract, paid \$165,083 less for the drugs when compared to API and \$204,817 less compared to DOC.

While cost containment efforts have been effective in regards to pharmaceuticals, drugs only represent approximately three percent of total pioneer home operating expenditures.

**Improvements are needed to maximize revenue and prudently manage pioneer home fiscal operations.**

Maximizing revenues has not been a priority of DAPH or DHSS management. Since 2009, the monthly rates have not been adjusted to reflect increases in operating costs and residents have not been required to apply to Medicaid which, if determined eligible, would help reduce the general fund subsidy.

When conducting the audit, several deficiencies in fiscal

---

<sup>8</sup>Both DOC and API purchase drugs through an agreement with the Minnesota Multistate Contracting Alliance for Pharmacy, which is a coalition of states and governmental units. This group purchasing agreement allows the negotiation of more favorable prices for pharmaceuticals and other health care products and services.

management of the pioneer homes, excluding pharmacy operations, were identified. The deficiencies, taken together, demonstrate that pioneer home management has not fiscally managed the homes in a prudent manner. Opportunities to increase revenues and improve fiscal management are presented below.

**Increasing Monthly Resident Fees:**

The monthly resident rates are established by regulations, which require the DHSS commissioner review the rates annually. The rates were reviewed and adjusted in July 2009, but no increases have been made since that date.

In an effort to evaluate their adequacy, rates were compared to the operating costs by level of care. To conduct the comparison, the total FY 14 operating and capital deferred maintenance expenditures were allocated by level of services.<sup>9</sup> As shown in Exhibit 5, the rate charged covered only 34 percent to 45 percent of the costs for services. (See Recommendation 3.)

**Exhibit 5**

Alaska Pioneer Homes FY 14 Monthly Costs Compared to Monthly Rates					
Service Level	Average Occupancy	Monthly Costs per Resident	Monthly Rate	Difference Between Costs and Rate	Difference as a Percent of Costs
Level I	63	\$ 7,097	\$2,350	\$4,747	66%
Level II	138	\$ 9,443	\$4,260	\$5,183	55%
Level III	263	\$14,190	\$6,170	\$8,020	57%

**Maximizing Medicaid Participation:**

Statutes authorize payment assistance to pioneer home residents whose income and other resources are insufficient to pay the monthly resident rate. The amount of payment assistance is equal to the

<sup>9</sup>DAPH central office staff allocation methodology was re-performed using reports from the state accounting system.

---

amount needed to meet the monthly rate, taking into consideration each resident's available resources.

Alaska regulation 7 AAC 74.040(d) requires pioneer home applicants for the payment assistance program apply for Medicare coverage Part A, Part B, and Part D or equivalent medical insurance coverage from another provider. The applicant is also required to apply for Medicaid and any other state or federal program that may reduce the amount of payment assistance required.

DAPH staff does not consistently require proof of Medicaid eligibility. Specifically, DAPH management stated that a copy of the Medicaid denial letter is not required when payment assistant applicants indicate that they do not have a Medicaid eligibility number. With the absence of documentation, whether or not applicants applied for Medicaid benefits is unknown. Maximizing participation in Medicaid will reduce general fund subsidy. (See Recommendation 3.)

*Improving Financial Accounting and Collection Efforts:*

DAPH Central office staff uses QuickBooks, a subsidiary accounting system, to account for amounts owed and paid by pioneer home residents. QuickBooks was not set up properly when implemented in 2006. Consequently, DAPH staff can not readily identify the correct amounts owed by residents. (See Recommendation 1.)

Additionally, the audit found that little effort was made by DAPH staff to collect past due amounts owed by residents. Although DAPH has written procedures for collections of past due amounts, DAPH staff does not provide adequate follow up after initial past due notices are sent. (See Recommendation 2.)

*Limit Unauthorized Payments:*

DAPH management administers a grant program to provide funds to pay for pioneer homes residents' medical and dental expenses. During the period FY 10 through March 2015, DAPH staff issued almost \$100,000 in grants for residents' medical and dental expenses. This grant program is not statutorily authorized and payment of medical expenses is prohibited by regulation. (See Recommendation 4.)

---

**DHSS' methodology to calculate the proposed FY 14 Medicaid waiver rates was consistently applied and included all allowable costs.**

The calculation of the FY 15 proposed Medicaid waiver rates for pioneer homes was compared to the calculation for the largest privately-owned assisted living home that submitted a cost survey to DHSS' Office of Rate Review (ORR). The methodology for calculating the proposed rates was consistent between the two. The costs reported by DAPH on the FY 12 cost survey submitted to ORR were determined to be materially accurate. The reported costs included operating expenditures, capital expenditures for deferred maintenance, and the annual depreciation for the pioneer home facilities.

The Medicaid waiver rates (also known as Residential Supported Living rates) at the time of the surveys and the FY 15 proposed rates for pioneer homes and privately-owned assisted living homes (ALH) with 17 or more beds are presented in Exhibit 6.

**Exhibit 6**

<b>Alaska Pioneer Homes Residential Supported Living Rates</b>	
	<b>Service Rate Per Day</b>
<b>Existing Rates Effective July 1, 2013</b>	
Privately-Owned ALHs (17 or more beds)	\$155.01
State-Owned ALHs	\$155.01
<b>Proposed Rates Effective July 1, 2014</b>	
Privately-Owned ALHs (17 or more beds)	\$124.81
State-Owned ALHs	\$354.55

As shown in Exhibit 6, the \$155.01 daily rate was the same for both privately-owned and State-owned ALHs. However, the proposed rates based on the cost surveys submitted to ORR were significantly different for privately-owned ALHs (\$124.81 per day) compared the rate for State-owned ALHs (\$354.55 per day). The \$229.74 per day rate difference is mainly attributed to much higher costs incurred by the pioneer homes when compared to other privately-owned ALHs.

---

---

**Most prior pioneer home audit recommendations were resolved.**

Five of the seven recommendations from the 1999 pioneer home audit were implemented or resolved. The prior recommendation regarding compliance with federal regulations in the handling of controlled substances was partially implemented. The pioneer home pharmacist established procedures for tracking prescribed controlled substances including those sent to each home. However, the Sitka Pioneer Home registered nurse has not complied with these procedures. (See Recommendation 6.) The prior recommendation directing the DAPH director to select the most effective method of providing pharmacy services to residents was not addressed, and no analysis by DAPH staff had been conducted at the time of audit fieldwork. However, audit fieldwork found no compelling reason to privatize pharmacy operations.

The audit found the pharmacy generally recoups its operating costs. Drug costs are effectively contained through the group purchasing contract. Furthermore, a consultant hired to review pharmacy operations concluded that the pharmacy met or exceeded industry best practices in regards to accounting for controlled substances and processing prescriptions. Inventory controls were also found to be appropriate given the pharmacy's size and billing procedures were found to be in line with industry standards. The consultant stated:

*There are many areas where the Alaska Pioneer Home Pharmacy's services are strong and well beyond what one would see in the typical pharmacy service to assisted living facilities.*

Given the favorable review by the consultant and the pharmacy's successful efforts to contain costs, the prior recommendation will not be reiterated as part of this audit. A more detailed summary of the status of prior recommendations can be found in Appendix B.

**Scope limitation prevented the examination of acuity levels.**

The audit was unable to examine the degree of care required for residents in the privately-owned assisted living homes due to the confidentiality requirements of the *Health Insurance Portability and Accountability Act* and the lack of authority for the Division of Legislative Audit to examine the records of privately-owned homes.



---

Therefore, the audit was unable to compare the degree of care required at pioneer homes to that of privately-owned assisted living homes. However, the audit did compare the average age of pioneer homes residents to the average age of residents of private assisted living homes with more than 17 beds. Pioneer homes residents' average age was 86 years, compared to private homes residents' average age of 80 years.

(Intentionally left blank)

---

## FINDINGS AND RECOMMENDATIONS

---

**Recommendation 1:  
The Division of Alaska  
Pioneer Homes (DAPH)  
director should obtain  
assistance from the  
Department of Health and  
Social Services' (DHSS)  
Financial Management  
Services accountants  
to properly deploy  
QuickBooks so that it  
can correctly function as  
a subsidiary accounting  
system.**

The pioneer homes' subsidiary accounting system, QuickBooks, does not account for resident expenses and payments in accordance with generally accepted accounting principles (GAAP). All pioneer home transactions are initially recorded as debits in QuickBooks. However, revenues, such as payments on residents' accounts, should be posted as credit transactions. The only transactions recorded as credits by DAPH staff are adjustments to residents' accounts. This creates an overstated debit balance (receivable from resident) which must be manually manipulated to calculate the accurate balance owed by residents.

Additionally, the present settings in QuickBooks for residents' expense and payment transactions are not linked to the general ledger's expense, revenue, and receivables accounts, so these summary accounts must be updated manually in order to determine the total revenue received and total outstanding receivables.

The proper use of debits and credits is a fundamental GAAP practice essential to properly report activity. Incorrectly installing and programming QuickBooks contributed to the deficiencies as well as a general lack of accounting knowledge by DAPH staff. The QuickBooks errors create inefficiencies due to the need to manually manipulate data. Furthermore, the amount reported as owed by current and past residents is not accurate.

We recommend the DAPH director obtain assistance from DHSS' Financial Management Services accountants to properly deploy QuickBooks so that it can correctly function as a subsidiary accounting system. Furthermore, a detailed review of resident accounts should be conducted to correct accounting errors and determine the amounts owed in accordance with GAAP.

**Recommendation 2:  
DAPH management should  
allocate resources to  
actively pursue collection  
of past due amounts.**

DAPH management does not adequately pursue collection of past due amounts. DAPH management has policies and procedures for collections of past due amounts. However, there is little follow-up by management when no responses are received to past due notices. Additionally, in the event that a resident dies, DAPH's efforts to recover amounts owed through filing a claim against a

---

resident's estate are minimal.

State regulation 7 AAC 74.040(a) requires every resident and recipient to pay the appropriate rate if financially able to do so, and section (b) states a resident and a recipient who is not financially able to pay the monthly rate may apply to the payment assistance program. Alaska Statute 47.55.010(c)(2) charges DHSS with fiscally managing the pioneer homes.

Historically, pioneer home management has taken an altruistic approach to operations and focused resources on providing excellent care. Accounts receivable aging reports for the six pioneer homes showed a \$1.9 million past due balance as of June 30, 2014. Although the accuracy of the balance is questionable given problems with DAPH's subsidiary accounting system (see Recommendation 1), the reports indicate that outstanding balances are significant. Not actively pursuing collection of accounts receivable increases the general fund subsidy.

We recommend DAPH management allocate resources to actively pursue collection of past due amounts.

---

**Recommendation 3:  
DAPH management should  
enforce all requirements  
for the payment assistance  
program.**

DAPH management does not enforce the requirement that payment assistant applicants apply for Medicaid waiver benefits as a qualifying condition for the payment assistance program. Alaska Statute 47.55 020(e) states:

*As a condition for receipt of payment assistance under (d) of this section, the department, under regulations adopted by the department, may require a person to apply for other state or federally sponsored programs that may reduce the amount of the payment assistance.*

State regulation 7 AAC 74.040(d) states:

*A person applying or receiving payment assistance as a resident or a recipient under AS 47.55 shall apply for . . . state or federally sponsored programs that may reduce the amount of payment assistance under AS 47.5.*

---

Although payment assistance applicants are asked to provide a Medicaid eligibility number as part of the payment assistance application, if no number is provided, DAPH staff do not follow up to ensure the applicant has applied for Medicaid.

To qualify for the Medicaid waiver program, the applicant must require nursing facility level of care. Therefore, only residents receiving pioneer home Level III services may be eligible for the Medicaid program. DAPH management stated that as of April 2015, approximately 70 Level III residents receiving payment assistance may qualify for the Medicaid benefits. If 50 percent of the 70 residents are eligible to receive Medicaid waiver benefits, the annual general fund subsidy could be reduced by approximately \$2 million.

We recommend DAPH management enforce all requirements for the payment assistance program, including the requirement that applicants apply for Medicaid.

---

**Recommendation 4:  
DAPH’s director should  
discontinue unauthorized  
grants to pioneer home  
residents.**

DAPH management provided grants to residents without statutory authority. Grants were issued to pioneer home residents for medical and dental expenses, such as hearing aids, dentures, and dental services. To receive the grants, residents or their designees completed a DAPH grant application describing their needs and related costs. The grant application contains the following statement:

*The Pioneers’ Home Grant Program is [a] “catastrophic insurance program” that provides supplemental assistance to Pioneers’ Home residents who are financially unable to pay for certain medical expenses. The goal of the grant program is to assist those residents in extreme need who have incurred medical expenses that they are financially unable to satisfy.*

However, neither the pioneer homes statutes nor regulations authorize a catastrophic insurance grant program. Regulation 7 AAC 74.040(c) states that DHSS is:

*Not liable for the medical expenses of a resident or recipient*

---

*and, except for the medication expenses described in 7 AAC 74.050(b)(2), is not responsible for the payment of those expenses.*

The DAPH director believes the division is authorized and should provide grants for medical and dental expenses the residents cannot afford. During the period July 1, 2010, through April 2, 2015, DAPH management issued approximately \$100,000 in grants for residents' medical and dental expenses. These expenditures cannot be recouped from Medicare because they are not allowable expenses per 7 AAC 74.040(c).

We recommend DAPH's director discontinue unauthorized grants to pioneer home residents.

---

**Recommendation 5:  
DHSS' commissioner  
should annually review  
the adequacy of pioneer  
homes' monthly rates.**

There are no records indicating that the DHSS commissioner has reviewed pioneer home monthly rates since FY 09. Alaska Statute 47.55.030(b) states:

*The commissioner of health and social services shall review the rate each year.*

Although DAPH management annually prepares a cost analysis by service level, there is no standard procedure to ensure these costs are compared to the monthly rate charged for each level of services. Since 2009, the pioneer homes' rates have not been increased to reflect the increasing costs of providing services. Lower monthly rates results in a higher general fund subsidy.

We recommend DHSS' commissioner annually review the adequacy of pioneer homes' monthly rates.

---

**Recommendation 6:  
DAPH’s director should  
ensure all pioneer  
homes comply with the  
pharmacy’s policies for  
controlled substances.**

The pioneer homes’ lead pharmacist developed a system for tracking controlled substances received at the pharmacy. The system requires the six homes to submit forms to the lead pharmacist indicating receipt and usage of the controlled drugs. The audit found the Sitka Pioneer Home does not comply with the policy. Regulation 12 AAC 52.730 outlines the duties of an institutional pharmacist:

*(a) The pharmacist-in-charge of an institutional pharmacy is responsible for the storage, preparation, distribution, and control of the institutional facility’s drug supply and for ensuring that these activities are carried out in conformance with established policies, procedures, and accepted standards.*

*(b) The pharmacist-in-charge of an institutional pharmacy shall establish written procedures for the distribution and control of drugs and for the provision of pharmacy services.*

The Sitka Pioneer Home supervising nurse preferred a different system of tracking controlled substances and, therefore, did not submit the required information to the lead pharmacist. Without a complete and accurate controlled substance inventory, drugs could potentially be diverted from their intended use. If such a diversion takes place, the likelihood of prompt discovery is reduced by incomplete records.

We recommend DAPH’s director ensure that all pioneer homes comply with the pharmacy’s policies related to controlled substances.

(Intentionally left blank)



---

# OBJECTIVES, SCOPE, AND METHODOLOGY

---

In accordance with Title 24 of the Alaska Statutes and a special request by the Legislative Budget and Audit Committee, we have conducted a performance audit of the Department of Health and Social Services (DHSS), Division of Alaska Pioneer Homes (DAPH).

## Objectives

The audit objectives were to:

- Evaluate DAPH's operating costs.
- Evaluate the effectiveness of DAPH's cost containment efforts.
- Examine the Medicaid waiver rate setting methodology for assisted living facilities with 17 or more beds, including the reasons for discrepancies in rates between privately-owned assisted living homes and the pioneer homes.
- Examine the degree of care required for pioneer homes residents compared to the degree of care required for privately-owned assisted living home residents.
- Determine the status of prior pioneer home audit recommendations.

## Scope

The audit reviewed the operating and capital expenditures and related revenues for the period July 1, 2009, through June 30, 2014. Additionally, the audit reviewed DHSS' methodology for establishing the proposed Medicaid waiver rates expected to be effective July 1, 2014, for assisted living homes with 17 or more beds.

## Scope Limitation

The audit was unable to examine the degree of care required by residents in the privately-owned assisted living homes due to the confidentiality requirements of the *Health Insurance Portability and Accountability Act* and the lack of authority for the Division of Legislative Audit to examine the records of privately-owned homes. Therefore, the audit was unable to compare the degree of care required at pioneer homes to that required at privately-owned assisted living homes.

---

## Methodology

During the course of the audit, the following were reviewed and evaluated:

- Statutes and regulations for DAPH, licensed assisted living homes, and the Medicaid Home and Community Based Waiver Services program to understand the statutory and regulatory requirements for the pioneer home system, certification as a provider of Medicaid services, and pioneer homes' licensing as assisted living facilities.
- Alaska Board of Pharmacy statutes and regulations to gain an understanding of the licensing requirements for the pioneer home pharmacy.
- Pioneer home pharmacy policies and procedures to gain an understanding of pioneer home operations.
- DAPH accounting procedures for QuickBooks to understand how residents' service charges and collections were tracked.
- Payment assistance program regulations and application procedures to determine the program's eligibility requirements.
- DAPH budget requests from the Office of Management and Budget for FY 12 through FY 15, operating and capital appropriation acts, and financial records from the state accounting system for the period FY 10 through FY 14, to determine the annual general fund subsidies for the pioneer home system.
- Costs of care by service level for FY 14 based on DAPH financial records from the state accounting system to compare the costs to the monthly rate for each service level established by regulation.
- Personal service reports from the state payroll system to determine the hours of direct-care services each resident received per day in FY 14.
- National surveys from the Centers for Disease Control and Prevention, National Study of Long-Term Care Providers (NSLTCP), 2012 State Web Tables, and from the Centers for Medicare and Medicaid Services, Data.Medicare.gov, Nursing Home Compare data, 2015 staffing ratings and reported, expected, and adjusted staffing values.

---

These data sources were identified by a consultant. Data from the Centers for Disease Control and Prevention, NSLTCP, 2012 State Web Tables for residential care communities (assisted living facilities) and nursing facilities were used to compare to the hours of direct-care services each pioneer home resident received per day.

- Cost surveys submitted to DHSS by DAPH and privately-owned assisted living homes for the proposed Medicaid waiver rates and instructions for completing such surveys to recalculate the proposed rates and determine consistency of the applied methodology.
- Cooperative purchase agreement between DAPH and PeaceHealth, a national group purchasing organization, to understand its use as a cost containment tool.
- Minnesota Multistate Contracting Alliance for Pharmacy agreement with the State for purchasing pharmaceuticals and health care-related supplies for the Department of Corrections (DOC) and Alaska Psychiatric Institute (API) pharmacies. This was used to gain an understanding of the cost containment efforts of the two pharmacies compared to the pioneer home pharmacy.
- Expenditures by vendor from the state accounting system records for the period FY 12 through FY 14 to determine the significant vendors used by DAPH, DOC, and API through the PeaceHealth and MMCAP agreements.
- Prior year recommendations from the audit report, *Department of Administration, Division of Alaska Longevity Programs, Alaska Pioneers' Home, October 8, 1999*, Audit Control Number 02-4591-00 and related audit workpapers to gain an understanding of the prior audit recommendations.

A consultant with expertise in long-term care pharmacy services was hired to review the pioneer homes pharmacy operations to determine the status of prior pharmacy-related audit recommendations. The consultant, accompanied by audit staff, made on-site visits to the Anchorage, Palmer, and Juneau pioneer homes, and the pioneer home pharmacy during the week of January 4, 2015.

---

During the course of the audit, interviews were conducted with:

- DAPH central office staff to gain an understanding of the accounting procedures for residents' accounts and receipts from third parties and other federal and state agencies.
- Administrators and nursing staff at the Anchorage, Palmer, and Juneau homes to understand how the homes document receipt of prescription drugs from the pioneer home pharmacy and track their administration to residents.
- Pioneer home pharmacists and technicians to gain an understanding of the pharmacy operations, including the dispensing of prescriptions.
- Management staff of the Division of Senior and Disabilities Services to gain an understanding of the Medicaid waiver certification of providers and the Division of Health Care Services to obtain information regarding licensing and inspections for regulatory compliance of assisted living homes.
- Executive director and audit supervisor of the DHSS Office of Rate Review to discuss the methodology used for the proposed Medicaid waiver rates expected to be effective July 1, 2014.
- Licensing examiner for the Board of Pharmacy to understand the pioneer home pharmacy license type and to obtain historical licensing information for the pharmacy.

To evaluate the effectiveness of pharmacy cost containment efforts, a list of the 55 most frequently dispensed drugs and the 25 highest cost drugs dispensed by the pioneer home pharmacy during FY 14, along with the cost paid by DAPH for each drug, was obtained from the pioneer home lead pharmacist. The costs for the same drugs incurred by DOC and API were obtained from each of the respective lead pharmacists. However, four of the top 55 most frequently dispensed drugs were not comparable with those dispensed by DOC or API due to mismatched national data codes or the drug being discontinued. Additionally, four of the remaining 51 drugs were duplicated on the highest cost drug list. Therefore, the respective costs for DAPH, DOC, and API were compared for

---

47 of the most frequently dispensed drugs and 25 highest cost drugs to determine which entity's purchasing agreement resulted in the greatest savings.

(Intentionally left blank)

---

# APPENDICES

---

## **Appendix A: Operating Expenditures and Revenues**

Tables 1 and 2 are the FY 10 through FY 14 operating expenditures and revenues for the Division of Alaska Pioneer Homes, including the pioneer homes and the pioneer home pharmacy. Tables 3 and 4 are the operating expenditures and revenues for the pioneer home pharmacy, which are subsets of tables 1 and 2. Capital expenditures and related revenues are not included in the any of the tables.

## **Appendix B: Status of Prior Alaska Pioneer Home Audit Recommendations**

During the prior audit, the Alaska pioneer home system was administered by the Department of Administration, Division of Alaska Longevity Programs (DALP). The scope of the prior audit was FY 95 through FY 99. The audit report contained seven recommendations, including five recommendations concerning the central pharmacy operations. The status of the seven recommendations is presented in Appendix B.

(Intentionally left blank)



# APPENDIX A

**Table 1**

Alaska Pioneer Homes Operating Expenditures for the period FY 10 through FY 14							
Account	FY10	FY11	FY12	FY13	FY14	Total	Percent
Personal Services	\$43,248,184	\$45,065,908	\$47,979,329	\$49,404,921	\$50,567,548	\$236,265,890	80%
Travel	121,842	82,688	115,104	72,877	84,253	476,764	0%
Services	8,489,674	6,754,810	6,840,981	7,654,453	7,595,062	37,334,980	13%
Commodities	3,671,339	4,187,792	3,710,915	3,673,092	3,102,831	18,345,969	6%
Capital Outlay	336,172	115,682	277,442	286,981	156,324	1,172,601	1%
Other Equipment	29,653	44,041	27,262	-	20,281	121,237	0%
Grants and Benefits	53,700	32,621	37,164	34,443	35,450	193,378	0%
Transfers Out	-	-	-	-	144,203	144,203	0%
<b>Total</b>	<b>\$55,950,564</b>	<b>\$56,283,542</b>	<b>\$58,988,197</b>	<b>\$61,126,767</b>	<b>\$61,705,952</b>	<b>\$294,055,022</b>	<b>100%</b>

**Table 2**

Alaska Pioneer Homes Revenues for the period FY 10 through FY 14							
Account	FY10	FY11	FY 12	FY 13	FY14	Total	Percent
Receipts for Services	\$15,774,988	\$15,940,821	\$15,543,505	\$15,775,738	\$15,706,542	\$78,741,594	64%
Supply Recovery	200,971	237,515	231,877	223,408	193,448	1,087,219	1%
Other Revenues	2,897,933	2,809,105	2,679,834	2,496,712	2,495,723	13,379,307	11%
Medicaid	24,932	29,666	29,124	41,474	33,419	158,615	0%
Health & Social Services	5,238,253	5,415,300	5,612,300	5,523,314	4,587,819	26,376,986	22%
Social Security and Veterans	323,537	434,989	525,123	564,647	739,817	2,588,113	2%
<b>Total</b>	<b>\$24,460,614</b>	<b>\$24,867,396</b>	<b>\$24,621,763</b>	<b>\$24,625,293</b>	<b>\$23,756,768</b>	<b>\$122,331,834</b>	<b>100%</b>

# APPENDIX A

## (Continued)

**Table 3**

Alaska Pioneer Homes Pharmacy Operating Expenditures for the period FY 10 through FY 14							
Account	FY10	FY11	FY12	FY13	FY14	Total	Percent
Personal Services	\$742,179	\$778,536	\$832,500	\$836,173	\$688,120	\$3,877,508	27%
Travel	18,455	18,317	22,604	14,115	3,531	77,022	1%
Services	109,059	123,259	94,598	86,043	188,265	601,224	4%
Commodities	2,028,691	2,298,645	1,808,260	2,078,578	1,559,502	9,773,676	68%
Capital Outlay	6,017	-	-	-	-	6,017	0%
<b>Total</b>	<b>\$2,904,401</b>	<b>\$3,218,757</b>	<b>\$2,757,962</b>	<b>\$3,014,909</b>	<b>\$2,439,418</b>	<b>\$14,335,447</b>	<b>100%</b>

**Table 4**

Alaska Pioneer Homes Pharmacy Revenues for the period FY 10 through FY 14							
Account	FY10	FY11	FY 12	FY 13	FY14	Total	Percent
Other Revenues	\$2,886,949	\$2,805,314	\$2,669,451	\$2,495,176	\$2,493,793	\$13,350,683	100%
<b>Total</b>	<b>\$2,886,949</b>	<b>\$2,805,314</b>	<b>\$2,669,451</b>	<b>\$2,495,176</b>	<b>\$2,493,793</b>	<b>\$13,350,683</b>	<b>100%</b>

# APPENDIX B

## Status of Prior Alaska Pioneer Homes Audit Recommendations

Recommendation	Status
<b>The Division of Alaska Longevity Programs (DALP)* human resources officer should assess the risk of employing certain individuals.</b>	This recommendation is resolved. Current regulations require an assisted living home to provide safeguards to ensure that persons entering or living in the home, including employees, volunteers, contractors, and visitors, do not abuse, neglect, or exploit residents.
<b>The commissioners of the Departments of Administration and Health and Social Services should adopt regulations to prohibit employment of certain criminals in assisted living homes.</b>	This recommendation has been implemented. Regulations 7 AAC 75.220 and 7 AAC 10.905 require safeguards to ensure that persons entering or living in the home; including employees, volunteers, contractors, and visitors do not abuse, neglect, or exploit residents. Testing found that employees working with residents had valid and current background checks.
<b>The Pioneer Homes chief pharmacist should implement additional controls over pharmacy operations.</b>	This recommendation has been implemented. A consultant reviewed the pharmacy and found the recommended controls had been implemented.
<b>Pharmacists and the Palmer Pioneers Home staff should increase physical controls over medications.</b>	This recommendation has been implemented. A consultant reviewed three pioneer homes and found the recommended controls had been implemented by each home.
<b>The Pioneer Homes administrators should either develop a new medication administration report form that is easier to complete and interpret or should provide additional training to those who use the current form.</b>	This recommendation has been implemented. Pioneer homes now use an electronic medication administration record which replaced the paper forms referred to in the prior audit.
<b>The Pioneer Homes pharmacists should adhere to federal regulations in handling controlled substances.</b>	This recommendation has been partially implemented. A consultant reviewed three pioneer homes and confirmed controls have been implemented. However, audit work found the Sitka Pioneer Home is not complying with established controls. See current audit Recommendation 6.
<b>The DALP director should select the most effective method of providing pharmacy services to residents.</b>	This recommendation was not implemented as no detailed analysis occurred. However, current year testing found no compelling reason to contract out pharmacy services. Recommendation is not reiterated.

\*In 1999, the Department of Administration oversaw the pioneer home program through DALP.

(Intentionally left blank)

# Agency Response from the Department of Health and Social Services



THE STATE  
of **ALASKA**  
GOVERNOR BILL WALKER

## Department of Health and Social Services

OFFICE OF THE COMMISSIONER

Anchorage  
3601 C Street, Suite 902  
Anchorage, Alaska 99503-5923  
Main: 907.269.7800  
Fax: 907.269.0060

Juneau  
350 Main Street, Suite 404  
Juneau, Alaska 99801-1149  
Main: 907.465.3030

Fax: 907.465.3068

RECEIVED  
SEP 30 2015  
LEGISLATIVE AUDIT

September 30, 2015

Ms. Kris Curtis, CPA, CISA  
Legislative Auditor  
Legislative Budget and Audit Committee  
Division of Legislative Audit  
P.O. Box 113300  
Juneau, Alaska 99811-3300

Dear Ms. Curtis:

RE: Response to Confidential Performance Audit of the Department of Health and Social Services (DHSS), Division of Alaska Pioneer Homes (DAPH or division) May 21, 2015

We appreciate the opportunity to review and evaluate the preliminary audit report with the associated recommendations received September 10, 2015. DHSS is in general agreement with the report's conclusions and has the following responses to share:

Page 11 Conclusions – Pioneer home operating costs are heavily subsidized by the State's general fund; first paragraph, last sentence: DHSS recommends additional clarification that the court ruling did not change the purpose or mission of the Alaska Pioneer Homes. The court ruling resulted in changes in residency requirements that also impacted the Permanent Fund Dividend Corporation.

Recommendation No. 1

The DAPH director should obtain assistance from DHSS' Financial Management Services accountants to properly deploy QuickBooks so that it can correctly function as a subsidiary accounting system.

DHSS concurs with this recommendation and has requested assistance from DHSS Finance and Management Services.

Recommendation No. 2

DAPH management should allocate resources to actively pursue collection of past due amounts.

Ms. Kris Curtis, CPA, CISA  
September 30, 2015  
Page 2 of 2

DHSS concurs with this recommendation. DAPH is reviewing internal policies and procedures to better clarify collection expectations. Additionally, it is planning to split collection duties among two staff members to strengthen the collection efforts on outstanding balances.

Recommendation No. 3

DAPH management should enforce all requirements for the Payment Assistance Program.

DHSS concurs with this recommendation. DAPH will evaluate the language of the regulation for a possible change to ensure it is consistent with Alaska Statute 47.55.020.

Recommendation No. 4

DAPH's director should discontinue unauthorized grants to pioneer home residents.

DHSS concurs with this recommendation. DAPH ceased awarding grants in December of 2014 and will evaluate whether the division has statutory authority to address these needs through a regulatory solution. The grants were viewed as an extension to the DAPH mission of care for Alaskan elders. By providing these funds it allowed Alaskan elders to receive care that they would otherwise have gone without.

Recommendation No. 5

DHSS' commissioner should annually review the pioneer homes' monthly rates.

DHSS concurs with this recommendation. DHSS will strengthen internal processes to demonstrate compliance with Alaska Statute 47.55.030(b).

Recommendation No. 6

DAPH's director should ensure all pioneer homes comply with the pharmacy's policies for controlled substances.

DHSS concurs with this recommendation. DAPH has taken corrective action and is now complying with all pharmacy guidelines.

Thank you for the opportunity to provide a response

Sincerely,



Valerie J. Davidson  
Commissioner

Cc: Sana P. Efirid, Assistant Commissioner  
Jon Sherwood, Deputy Commissioner  
Vickie Wilson, Acting Director of Alaska Pioneer Homes  
Jared Kosin, Executive Director, Office of Rate Review  
Linnea Osborne, Accountant V