April 20, 2001

Dr. Roxane Spitzer, Chief Executive Officer
Board of Trustees
Hospital Authority of the Metropolitan Government of
Nashville and Davidson County
1818 Albion
Nashville, TN 37208

Report of Internal Audit Section

Dear Dr. Spitzer and Hospital Authority Board of Trustees:

We have recently completed a performance audit of Bordeaux Hospital. According to the *Government Auditing Standards* issued by the Comptroller General of the United States, "a performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action." A performance audit is different than financial statement audits, which are limited to auditing financial statements and controls, without reviewing operations and performance. In performing this audit, we retained KPMG to perform specified work under our direction. Their Benchmarking Analysis dated April 2001 is included with this report.

The Hospital Authority is a component unit of the Metropolitan Government and was created in 1999 to operate General Hospital, a full service medical facility, and Bordeaux Hospital. The Hospital Authority is governed by a seven member board appointed by the Mayor and approved by the Metropolitan Council. The Metropolitan Government approves and partially funds the Hospital Authority's annual operating budget. Bordeaux Hospital currently operates a 528 bed nursing home that provides intermediate and skilled nursing services. Additionally, 60 beds are licensed as a long-term acute care (LTAC) hospital. Bordeaux has a total staff of approximately 580.

Based on the most recent audited financial statements, Bordeaux's total operating results for both the nursing facility and the LTAC for the 2000 and 1999 fiscal years were as follows:

	June 30, 2000	June 30, 1999
Operating Revenues	$23,149,256	$22,716,018
Operating Expenses	38,034,119	35,543,962
Operating Loss	($14,884,863)	($12,827,944)
Appropriation from Metro's General Fund	$13,045,898	$14,679,892

The former Director of Bordeaux, who was responsible for managing Bordeaux when this audit began, retired effective December 31, 2000. Upon his retirement, the Hospital Authority appointed a Chief Executive Officer to be responsible for both General and Bordeaux Hospitals.

Objectives, Scope, and Methodology

This audit represents the first comprehensive performance audit of Bordeaux Hospital. The overall objectives of this performance audit were as follows:

- Determine which operations contribute to Bordeaux's operating losses.
- Conduct a peer group benchmarking analysis.
- Identify and review key operating and financial controls.
- Develop findings and recommendations for any areas where performance could be improved.

The scope of the work included Bordeaux's primary operations, and the benchmarking focused on fiscal year 1999 financial results, which was the most recent full year available for Bordeaux and the selected peers when the work began. Certain other audit work and analyses required the consideration of financial results, performance and operations outside of that time period.

The methodology employed throughout this audit was one of objectively reviewing various forms of documentation, including written policies and procedures, financial information, Board minutes and various other forms of data, reports and information available from State and other outside sources and maintained by Bordeaux and other Metro Departments. Various aspects of Bordeaux's operations were observed. Additionally, Bordeaux and peer data obtained from Medicare and Medicaid cost reports were summarized and compared, and telephone interviews with peer facilities were conducted.

We performed the audit procedures in accordance with generally accepted government auditing standards.

Findings and Recommendations

KPMG's Benchmarking Analysis resulted in findings and recommendations that are addressed in detail in their April 2001 report that is included with this report. Following is an overview of the findings and recommendations resulting from KPMG's benchmarking analysis and from Internal Audit's review of operations and controls.

1. Opportunities for immediate cost savings should be investigated and considered as the fiscal year 2002 budget is developed.

   KPMG's benchmarking analysis identified three areas where Bordeaux's nursing facility costs significantly exceeded the peers' average costs as follows.

   Medical and nursing staffing – Bordeaux's nursing facility staff to patient ratios for both Bordeaux employees and contract staff exceeded those of the peers. The analysis suggests that if Bordeaux's staffing ratios, including contract labor, were in line with the average peer staffing ratios, the related expenses would be approximately $2,269,000 less annually.

   Pharmacy – Bordeaux operates an in-house pharmacy, while the more common practice is to contract for nursing facility pharmacy services. The annual cost of operating the pharmacy of approximately $916,000 would be avoided if pharmacy services were contracted.

   Physician services – Bordeaux employs staff physicians who see nursing facility patients, a practice that none of the peers follows. If Bordeaux were to follow the common practice of having patients arrange for their own physician services, the related annual cost of approximately $724,000 would not be incurred.

   With regard to contract labor, because Bordeaux was not verifying charges for contract nurses prior to paying related invoices, one contractor's labor charges during January through September 2000 included $235,000 in fraudulent charges for fictitious employees. After Bordeaux employees discovered these overcharges, proper steps were taken to notify appropriate law enforcement authorities and to attempt to recoup the overcharges.

With regard to the pharmacy, Internal Audit determined that there was no perpetual inventory control over the non-schedule II pharmacy inventory and that the pharmacy storeroom area was not properly restricted to authorized personnel. Additionally, returned drugs were processed by a contractor, and there was no evidence that the returns were independently verified by Bordeaux personnel.

Consideration should be given to implementing operational changes in staffing formulas and to outsourcing pharmacy and physician services for the 2002 fiscal year. Additionally, control procedures should be put in place to verify that contract nursing services were actually received before the related invoices are paid. Finally, until such time as the pharmacy is outsourced, controls over pharmacy inventory should be implemented, and access to the pharmacy storeroom should be restricted.

2. <u>Bordeaux's cash position and cash flow needs should be considered in developing the fiscal year 2002 budget.</u>

   Bordeaux's cash and investments balance has been increasing. For the fiscal years ending June 30 1998, 1999 and 2000, the balances were $2,860,538, $4,204,633 and $4,395,163, respectively, and the balance during the 2001 fiscal year has continued to increase. Because Bordeaux's budgeted operating losses are budgeted and appropriated from Metro's General Fund, the increasing cash balance indicates that the General Fund has been overfunding Bordeaux in recent years. The Hospital Authority's and Metro's financial staffs should work together to develop a budget for the 2002 fiscal year and beyond that begins to reverse Bordeaux's previous years' cash build up.

3. <u>All significant cost variances, as compared to the peers, should be investigated further for additional cost savings opportunities.</u>

   In addition to the cost savings opportunities outlined in the first recommendation above, several other large variances between Bordeaux and average peer nursing facility costs were identified as follows.

Salaries	$2,130,365
Plant maintenance expenses	722,288
Laundry and linen expenses	690,166

These variances are not as likely to result in significant cost savings as the variances discussed in the first recommendation. Salary variances, for example, could be the result of differences in Bordeaux and peer staffs' experience and longevity, and the plant maintenance variance could be due to the age, size and layout of Bordeaux's physical plant. Additionally, some of the peers used prison labor for laundry, which may not be an option for Bordeaux. It should be noted, however, that Bordeaux had not been verifying laundry services costing approximately $500,000 per year by independently weighing the laundry.

Bordeaux should consider whether savings could be achieved by outsourcing therapy and other services and should further analyze all significant variances for additional operational opportunities.

4. <u>Opportunities to increase revenue should be identified.</u>

Bordeaux's nursing services operating losses and government subsidies, both in total and on a per patient, per day basis, are excessive in comparison to the peers. The peers total adjusted expenses ranged from $121.05 to $141.86 on a per patient day basis, while Bordeaux's total adjusted expenses per patient day were $193.66. Two of the five peer facilities did not receive a local government subsidy, and the other three received subsidies ranging from $1,200,000 to $2,524,952. This compares to Bordeaux's subsidy from Metro of $14,309,528. Much of this can be attributed to the cost variances addressed above, but Bordeaux should also develop strategies to increase revenues by evaluating the payor mix and increasing the total number of patients. Additionally, the LTAC only has a 15% occupancy rate. Opportunities to increase LTAC occupancy should be identified, or alternative uses for the space should be considered.

5. <u>Financial and management reporting should be enhanced.</u>

We noted that Bordeaux maintains its own general ledger system, and the Metro Finance Department maintains a general ledger for Bordeaux in the central FASTnet accounting system. This results in duplication of effort and necessitates a lengthy, complicated reconciliation between the two general ledgers at year end. Additionally, we noted that budget to actual expenses are not reported to Bordeaux management on a timely basis. Hospital Authority and Metro financial staffs should work together to eliminate the duplicate general ledgers and to develop meaningful, timely financial reports for management.

6. <u>Basic internal controls should be enhanced in several areas.</u>

We noted a lack of adequate controls in several areas, as follows.

- In addition to payments being made for contract labor and laundry without proper verification as discussed above, 12 paid invoices out of 19 tested were paid without documentation that goods or services had been received.
- The patient cash account was not fully reconciled, and the same person who maintained the account also shopped for the patients, which is an inappropriate segregation of duties. Additionally, the cash balance on hand for the patient account was approximately twice the amount necessary for patient use.
- There was no periodic inventory of fixed assets, and obsolete and unused equipment was noted.
- Written operating procedures were not current for several areas of operation.

Internal controls should be implemented and/or enhanced for the above areas.

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Management's response to the audit recommendations follow this report.

We greatly appreciate the cooperation and help provided by the management and staff of Bordeaux Hospital throughout the course of this audit.

This report is intended for the information of the management of the Metropolitan Government of Nashville and Davidson County. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Internal Audit Section

Kim McDoniel
Internal Audit Manager

Copy: Mayor Bill Purcell
Karl F. Dean, Director of Law
David L. Manning, Director of Finance
Eugene Nolan, Associate Director of Finance
Metropolitan Council Audit Committee
Richard V. Norment, Director of County Audit
KPMG, Independent Public Accountant

April 20, 2001

Kim McDoniel
Metro Finance Department
Division of Internal Audit
222 3rd Avenue North, Suite 701
Nashville, Tennessee 37201

Dear Ms. McDoniel,

The Hospital Authority and the CEO are in receipt of the internal audit done by the Department of Finance for Bordeaux, which includes a benchmarking study done by KPMG. A great deal of data, analysis and appropriate conclusions have been reached which we support.

This outstanding work has provided us with the appropriate opportunities to both improve patient care while achieving operating efficiencies similar to that we have been able to accomplish at Metro Nashville General Hospital. We are analyzing all of the recommendations and including those in our budget that we can accomplish this coming fiscal year.

Thank you for the excellent work and support in improving and enhancing the Bordeaux facility.

Sincerely,

Roxane Spitzer Ph.D.

Roxane Spitzer, Ph.D.
Chief Executive Officer

cc: Dick Ragsdale, Chairman
David Manning, Finance Director

KPMG

Metropolitan Government of Nashville and Davidson County

Benchmarking Analysis

Intermediate Care and Skilled Nursing Facilities
Long-Term Acute Care Hospital

April, 2001

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Objective

This benchmarking analysis report presents the results of KPMG LLP's (KPMG) assistance to the Metropolitan Government of Nashville and Davidson County Internal Audit Section (Internal Audit). The objective of our assistance was to benchmark the income statement of Metro Bordeaux Hospital (Bordeaux), including nursing facility services, against selected peer groups and to identify significant variances.

Worksteps

KPMG and Internal Audit selected the fiscal year ended 1999 as the benchmark period which represented the most recent audited financial period for Bordeaux when the work began. Collectively, KPMG, Internal Audit and the former Bordeaux Director selected the peer groups and the items to be benchmarked. Initially, the peers were selected based on preliminary information such as types of services, ownership, location, payor mix, etc. It was also collectively decided to benchmark the nursing services and the long-term acute care (LTAC) hospital services separately. This decision was based on the wide variation in services and cost structures for the two unique services.

For nursing services, seven facilities were initially chosen. After obtaining financial information, it was decided that two of the facilities were not comparable. Therefore, the peer group for nursing services consisted of five facilities (Facilities "A – E"). All facilities were in Tennessee, were government owned during the study period and provided both intermediate and skilled nursing care.

	Shelby County Health Care Center	West, TN
	Oakville Health Care Center	West, TN
	Hamilton County Nursing Home	Central, TN
	Cheatham County Health Service Center	Central, TN
	Bedford County Skilled Nursing Facility	Central, TN

For long-term acute care hospital services, five facilities were selected for the peer group (LTACs "a – e"). It was necessary to look outside of the state of Tennessee for peers since chronic disease licensure is not common. Three hospitals were government owned, one was a not-for-profit and one was a for-profit facility.

	Select Specialty Hospital	Tennessee
	Massachusetts Respiratory Hospital	Massachusetts
	Ascension Hospital	Louisiana
	Western Maryland Center	Maryland
	Drake Center, Inc.	Ohio

Once the peer groups were selected, the following worksteps were performed in order to achieve the objective:

- Obtained Bordeaux financial data from governmental reports and internal documentation.

- Obtained most recent (1999 and 1998) publicly available information on the peer group (i.e., unaudited Medicare and/or Medicaid cost reports and certain audited financial statements).

  - For those facilities where 1998 year end data was the most recently available information (two peers), a market basket index published in the Federal Register was applied to the 1998 information to estimate 1999 revenues and expenses.

  - Prepared income statements for Bordeaux (based on audited financial statements) and the peer groups.

- Adjusted the income statements for salary wage indices and hospital and skilled nursing case-mix indices.

- Prepared "per patient day" Bordeaux and peer income statements to analyze each income statement on a comparable basis.

- Compared the peer group per patient day income statements to Bordeaux's per patient day income statements.

- Identified all significant variances in per patient day revenues and expenses to further analyze the efficiency of operations.

Caveats and Limitations

Inconsistencies in the methods used to report financial information likely exist among the peer group. KPMG noted that inconsistencies did exist in the information reported between the Medicare and Medicaid cost reports with respect to nursing facility services. KPMG, Internal Audit and hospital management attempted to reconcile these inconsistencies and obtain additional information by contacting the peer group facilities. Where applicable, adjustments were made; however, some inconsistencies likely still exist but are considered insignificant in relation to the scope of the engagement.

Additionally, the most recent cost reports available had not yet been audited by the intermediaries. KPMG did not audit or verify any information for the peers or Bordeaux.

General Findings

An analysis of Bordeaux's income statement broken out between the LTAC and nursing services indicated that Bordeaux's net operating loss of $13,398,753, as reported on the Medicare and Medicaid cost reports, is broken out as follows:

- LTAC: $96,707
- Nursing Facility: $13,302,046

- The LTAC is reimbursed cost up to a limit for Medicare patients. For the benchmarking period, Medicare cost was below the limit and, thus, fully paid.
- Based on the two above points, the variance analysis between Bordeaux and the peers focused on nursing facility services (Appendix I).
- The nursing facility's net revenue was comparable with the peers.
- There were material cost variances between Bordeaux and peer nursing facility services when analyzed on a per patient day basis (Appendix II).
- The nursing facility's cost per patient day exceeds the Medicaid payment per diem by approximately $63 for the Intermediate Care Facility (ICF) and $203 for the Skilled Nursing Facility (SNF) (Appendix III).
    - The nursing facility's Medicaid patients comprise approximately 96% (approximately 167,000 patient days) of all nursing service patients. Therefore, a substantial loss is incurred for each Medicaid nursing service patient day.
    - The payment per patient day for Medicaid patients is fixed; therefore, to minimize the related losses, a reduction of cost is necessary.

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Operational Findings and Recommendations

The following findings and recommendations have the potential to have immediate cost savings.

A. Medical and Nursing Full Time Equivalents (FTEs)

Finding: The nursing facility's medical and nursing FTEs per average daily census is approximately 30 greater than the peer group average. Additionally, the nursing facility's use of medical and nursing contract labor is also in excess of the peer group average.

The following two tables show the FTEs per average daily census for staff and contract labor. The tables multiply each peer's FTE per average daily census by Bordeaux's average daily census to determine the FTE variance. Note that Facility E is excluded from the contract labor calculation because the information was not available.

	Intermediate Care Facility					
	Bordeaux	Facility "A"	Facility "B"	Facility "C"	Facility "D"	Facility "E"
Medical and Nursing FTE per ADC	0.61	0.57	0.63	0.53	0.45	0.57
X Bordeaux's ADC	317.11	317.11	317.11	317.11	317.11	317.11
Staffing at Bordeaux's ADC	194	181	200	168	143	181
Peer Average	175	|---Average---|				
FTE Variance	19					
Contract Labor FTE per ADC	0.11	0.024	0.064	0.013	0.113	not available
X Bordeaux's ADC	317.11	317.11	317.11	317.11	317.11	
Staffing at Bordeaux's ADC	35	8	20	4	36	
Peer Average	17	|----------------------Average "A - D"-------------------------- ----------|				
FTE Variance	18					

	Skilled Nursing Facility					
	Bordeaux	**Facility "A"**	**Facility "B"**	**Facility "C"**	**Facility "D"**	**Facility "E"**
Medical and Nursing FTE per ADC	0.72	0.67	0.74	0.63	0.53	0.67
X Bordeaux's ADC	162.81	162.81	162.81	162.81	162.81	162.81
Staffing at Bordeaux's ADC	117	109	120	103	86	109
Peer Average	106	|--Average--|				
FTE Variance	11					
Contract Labor FTE per ADC	0.13	0.029	0.075	0.016	0.133	not available
X Bordeaux's ADC	162.81	162.81	162.81	162.81	162.81	
Staffing at Bordeaux's ADC	21	5	12	3	22	
Peer Average	11	|----------------------Average "A - D"------------------------- ----------|				
FTE Variance	10					

Recommendation: Bordeaux management should determine reasons for the significant variances in FTEs to justify those variances, or assess the FTE complement and mix and take steps to reduce the related costs. The cost associated with the FTE variances is summarized as follows:

	FTE Variance	Avg. Salary per FTE	Total Salary Costs	Total Benefit Costs	Total Costs
ICF Medical & Nursing FTEs	19	$27,439	$521,341	$172,043	$693,384
ICF Medical & Nursing Contract Labor	18	$41,382	$744,876	*Not applicable*	$744,876
SNF Medical & Nursing FTEs	11	$28,507	$313,577	$103,480	$417,057
SNF Medical & Nursing Contract Labor	10	$41,382	$413,820	*Not applicable*	$413,820
Subtotal			$1,993,614	$275,523	$2,269,137

B. Physician Services

Finding: Bordeaux employs physicians to provide various services and bills and retains collections for their professional services. The collections do not cover the full cost of employment. Peer facilities do not employ physicians or incur related costs. The net cost incurred by Bordeaux's nursing services is presented below, excluding expenses related to housing of $234,044 which is no longer provided:

Physician Salary Expenses	
(approximately 6.95 FTEs x average salary of $60,117)	$ 417,813
Salary Related Benefits (33%)	137,878
Other Expenses (insurance, bonding, etc.)	71,205
LESS: Net Physician Revenue	(103,520)
Net Physician Cost	$ 523,376

Recommendation: Bordeaux management should consider contracting physician services. If this recommendation is implemented, the LTAC, which incurs a net physician cost of $200,516, would also benefit. The LTAC's net physician cost consists of $228,056 for salaries, plus $68,417 for benefits, plus $38,866 for other expenses, less $134,823 in net revenue. This excludes physician housing expense of $104,299, which is no longer provided. Thus, the potential is to reduce Bordeaux's physician expenses by a total of $723,892.

C. Pharmacy Services

Finding: Bordeaux maintains an on-site pharmacy, employs its staffing needs, and bills and retains collections. The net pharmacy cost incurred related to the nursing facility is as follows:

Pharmacy Salary Expenses	
(approximately 7 FTEs x average salary of $46,793)	$ 327,551
Salary Related Benefits (33%)	108,092
Other Pharmacy Expenses (Drugs & Supplies)	564,787
LESS: Net Pharmacy Revenue	(84,330)
Net Pharmacy Cost	$ 916,100

The majority of the peer facilities outsource pharmacy services, shifting the risk of billing and collections. Only one other facility reported pharmacy salary expense. Those facilities that outsource pharmacy services reported a minimal amount of related expenses; however, those expenses were offset with revenue.

Recommendation: Bordeaux management should consider outsourcing pharmacy services. If this recommendation is implemented, it would have a minimal impact on the LTAC because 100% of Medicare related expenses are reimbursed.

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Other Findings and Recommendations

The following findings and recommendations require additional analysis by Bordeaux management in order to determine the potential for additional revenue or cost savings opportunities.

D. Revenue Enhancement Opportunities

One of the peers initially selected for the nursing services peer group but later removed from our study (Lake Taylor Hospital) is structured similar to Bordeaux (i.e. intermediate and skilled nursing services with an LTAC). Because it is located in Virginia, it was not possible to obtain reliable detailed comparable information. At the former Bordeaux Director's request, a comparison with Lake Taylor Hospital was made based on the combined nursing and hospital services.

Finding: The unadjusted expense per patient day was comparable. Significant variances related to net revenue and government appropriations were identified as follows:

	Income Statement		**Per Patient Day**	
	Bordeaux FYE: 6/30/99	Lake Taylor FYE: 6/30/99	Bordeaux FYE: 6/30/99	Lake Taylor FYE: 6/30/99
Total Net Revenue	**$ 21,236,763**	**$ 14,819,252**	**$ 118.91**	**$ 178.91**
Total Salaries Expenses	17,366,782	7,971,174	97.24	96.23
Total Non-Salary Expenses	17,268,735	7,789,872	96.69	94.05
Total Expenses	**34,635,517**	**15,761,046**	**193.93**	**190.28**
Net Income (Loss)	**$ (13,398,754)**	**$ (941,794)**	**$ (75.02)**	**$ (11.37)**
Government Appropriations	$ 14,413,559	-0-	$ 80.70	-0-

Upon further inquiry, it was discovered that the comparison facility improved its net revenue with strategic initiatives targeting increases in the number of Medicare patients and total patients, while stabilizing its costs. This revenue enhancement supports the facility's cost structure while receiving no government appropriations.

Recommendation: Bordeaux management should evaluate payor and patient mix, capacity issues, and seek alternative revenue sources that will reduce or eliminate the need for a General Fund subsidy.

E. Non-Medical/Nursing FTEs

Non-medical/nursing FTEs represent the following areas:

- Human Resources;
- Dietary;
- Housekeeping;
- Laundry & Linens;
- Plant Operation;
- Laboratory;
- X-ray;
- Recreation Services;
- Social Services;
- Medical Records;
- Central Supply; and
- Adjunctive Therapy

Finding: The nursing facility's non-medical/nursing FTEs per average daily census, excluding plant operation which is discussed below, is similar to the peer group average. However, it is noted that FTEs in certain departments are below the peer average, while others are over the peer average. The combined results are that Bordeaux's non-medical/nursing FTEs are at the peer average.

Due to a significant variance within plant operation, however, we isolated this department from the others. The nursing facility's plant operation department utilizes approximately 17 more FTEs per average daily census, at an average salary of $28,474, as compared to the peer group average of FTEs and contract labor.

	Bordeaux	Peer Average	Variance	Salary	Total Costs
Plant Operation	27	10	17	$28,474	$484,058

Recommendation: Bordeaux management should research the plant operation variance taking into consideration such issues as the age, size and layout of the plant. Any achievable cost savings should be pursued.

F. Salary Expenses

Finding: The nursing facility incurs a higher average salary per FTE as compared to the peer group average. This could be due to higher wages per FTE, skill mix of the FTEs, or a combination of both.

	Bordeaux	Peer Range	Peer Average	Salary Variance
Medical & Nursing	$ 31,277	$24,249 to $42,191	$ 29,387	$ 1,890
Administrative & General	$ 72,402	$34,191 to $52,319	$ 41,065	$ 31,337
Other Departments	$ 32,458	$17,194 to $32,015	$ 27,796	$ 4,662

The cost related to the higher salary expense is estimated as follows:

	Salary Variance	FTEs	Total Costs
Medical & Nursing	$ 1,890	281	$ 531,090
Administrative & General	$ 31,337	25	$ 783,425
Other Departments	$ 4,662	175	$ 815,850
		481	$ 2,130,365

During the fiscal year 1999 study period, Bordeaux utilized a total of 542 FTEs for nursing services. The 481 FTEs used above exclude the FTEs related to the variances discussed earlier in this report (30 medical and nursing FTEs, 7 physician FTEs, 7 pharmacy FTEs, and 17 plant operation FTEs) in order to prevent overstating the cost related to the salary variances.

Recommendation: Bordeaux management should further investigate the variances to justify them, or take steps to save cost where possible.

G. Benefit/HR Expenses

Finding: The nursing facility's benefit expense as a percentage of total salaries is approximately 10% greater than the peer average.

Bordeaux	**Facility "A"**	**Facility "B"**	**Facility "C"**	**Facility "D"**	**Facility "E"**
33%	*19%*	*20%*	*31%*	*22%*	*25%*
23%		*Average of Facilities "A – E"*			

Excluding the benefits related to the FTE variances discussed above, the cost related to the higher benefit expenses is estimated at $1,414,029 (10% variance multiplied by projected salary expense of $14,140,292).

Recommendation: None. The benefit/human resource expenses are established by the Metropolitan Government of Nashville and Davidson County and not Bordeaux management.

H. Plant Operation Non-Salary Expense

Finding: The nursing facility's non-salary plant operation cost of $6.40 per patient day exceeds the peer group average by approximately $1.36 per patient day. The peer group ranged from $2.50 to $6.27 per patient day, with an average cost of $5.04 per patient day.

Recommendation: Bordeaux management should further research the variances, taking into consideration such issues as the age, size and layout of the plant. Any achievable cost savings should be pursued.

I. Laundry and Linen Cost

Finding: The nursing facility's non-salary laundry and linen costs of $4.91 per patient day are approximately $3.94 per patient day greater than the peer average. The peer group ranged from $0.69 per patient day to $1.43, with an average of $0.97 per patient day. This excludes Facility "E" with a cost of $0.13 per patient day, which appears to be an outlier.

Recommendation: The laundry and linen non-salary expense requires further investigation. It should be noted, however, that some of the variance is due to the fact that two peer facilities utilized prison labor for laundry services; an alternative that Bordeaux is not considering. Opportunities to reduce laundry and linen costs should be identified.

J. LTAC Hospital Utilization

Finding: The LTAC has a very low occupancy rate of 15.6% (approximately 9 patients per day for the 60 beds).

Recommendation: Bordeaux management should seek opportunities to increase utilization or consider alternative uses for the facility.

Conclusions

Bordeaux management should first address those areas where an immediate operational cost savings opportunity exists. This includes improved utilization of medical and nursing FTEs and contract labor, and outsourcing physician and pharmacy services. Next, management should consider evaluating the other variances identified at a more detail level to determine whether additional cost savings or revenues are achievable. This would include determining any cost savings opportunities available by outsourcing other services, such as therapies and other ancillaries. Bordeaux should also consider benchmarking the nursing facility against best practices of private and other government owned facilities to identify further opportunities to increase effectiveness and efficiency.

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APPENDIX I

Nursing Service Unadjusted Income Statements

APPENDIX II

Nursing Services Wage and SNF Case-Mix Adjusted Per Patient Day Expenses

APPENDIX III

ICF Medicaid Reimbursement Per Diems
SNF Medicaid Reimbursement Per Diems