OPEGA
REPORT

Maine Veterans' Homes: Select Financial Operations

March
2025

a report to the
Government Oversight Committee and the Legislature
from the
Office of Program Evaluation & Government Accountability
of the Maine State Legislature

Government Oversight Committee of the 132nd Legislature

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Representative Ann Higgins Matlack
Representative Chad Perkins

<u>Committee Clerk</u>
Jennifer Greiner
Phone: (207) 287-1901
Fax: (207) 287-1906

Mailing Address:
Government Oversight Committee
82 State House Station
Augusta, Maine 04333-0082

Office of Program Evaluation & Government Accountability

Director: Peter Schleck

<u>Staff</u>
Matt Kruk, Principal Analyst
Jennifer Henderson, Senior Analyst
Amy Gagne, Senior Analyst
Kari Hojara, Senior Analyst
Joel Lee, Analyst
Lisa Plimpton, Analyst
Hillary Risler, Analyst
Jennifer Greiner, Administrative Secretary

Mailing Address:
82 State House Station
Augusta, Maine 04333-0082
Phone: (207) 287-1901
Fax: (207) 287-1906
Web: http://legislature.maine.gov/opega

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Introduction

In February 2023, concerns related to possible financial control weaknesses within Maine Veterans' Homes (MVH) were brought to the Government Oversight Committee (GOC). In response to those concerns, the GOC directed OPEGA to begin a preliminary investigation with an initial scope of examining the allegations that had been made. This preliminary investigation included interviews with former and current MVH administrators and the review of over 50,000 pages of MVH records.

From that work, OPEGA determined that questions remained about the strength of certain financial internal controls, and, in September 2023, recommended a continued review of MVH focused on the following areas:

- internal controls over MVH spending on supplies and services, in relation to established budgetary limits;
- the relative timeliness of accounts payable accrual and processing; and
- the extent to which internal data (and data systems), including relating to purchasing, payroll, and human resources, adequately supports and informs MVH spending within established budgetary limits.

Additionally, the GOC expressed an interest in better understanding of MVH's financial controls, due to the agency's requests for ongoing legislative funding. At that point in time, MVH had made multiple requests to the Joint Standing Committee on Veterans and Legal Affairs (VLA) to receive state funding for its operations, citing continued cash flow challenges.

The GOC voted to approve the three areas of review recommended by OPEGA, but prioritized a series of Child Protective Services Case File Reviews. As a result, OPEGA partially began fieldwork on the new scope of work in April 2024 and later fully conducted fieldwork through early 2025.

Overview of MVH

Establishment

MVH is a quasi-state entity that was originally established by the Legislature in 1977. The enacting legislation established a 9-member Board of Trustees (the Board), set the Board's duties and compensation limits, required an administrator to administer the home, set criteria for the admission of members, designated the Treasurer of State to serve as the custodian of funds, and required annual reports to the Governor. An amendment shortly thereafter made a few changes including establishing MVH as a body corporate and designating its powers as such.

Originally established as a single nursing home in Augusta, over the years MVH's governing statute was amended to add additional locations, expand eligibility to more veterans and their families, increase and diversify board membership, and expand services.

Recent Legislation

During the 127th Legislature, Title 37-B, chapter 11 was amended in part to remove specific reference to the six veterans' home locations and any requirement that excess funds be transferred to the General Fund.

In late 2021 and early 2022, due to cash flow and other issues (described in greater detail on page 5), the MVH Board took a series of votes to close the Machias and Caribou homes. In response, the Legislature passed Public Law 2021, chapter 528 (LD 2001), which enacted a number of changes to MVH's governing statute.

Changes to MVH's Governing Statute in Public Law 2021, Chapter 528
Established the policy and intent of the Legislature
Reenacted the requirement for the specific locations for veterans' homes in Augusta, Bangor, Caribou, Machias, Scarborough, and South Paris
Established a procedure that the Board must follow when it seeks to discontinue services at or closes a home for veterans
Increased the Board membership
Required the Board to seek (i) funds from private and public sources including but not limited to state and federal appropriations; and (ii) public comment when adopting rules
Amended MVH's annual reporting requirements
Directed DHHS to make supplemental payments to MVH in fiscal years 2021-22 and 2022-23 to offset budget shortfalls (a condition of which was that MVH commit to continuing to provide services in Caribou and Machias)
Established a stakeholder group[1] to develop a plan for the long-term viability and continuous operation of MVH at its current six locations.

[1] This stakeholder group developed a report that included six shared principles/recommendations, which were presented to VLA on March 1, 2023. It included a recommendation that the Legislature examine financing options used in other states, as described in the report, to ensure the future financial sustainability of MVH. See https://legislature.maine.gov/doc/9733.

Current Governance

Today, MVH's operations are governed by the Maine Revised Statutes Title 37-B, chapter 11. In accordance with the amendments enacted by LD 2001, MVH's purpose is to fulfill the state policy of ensuring the provisions of long-term care, support, and services to eligible veterans and their family members in every region of the state through the continuous operation of six veterans' homes. The homes must be located in Augusta, Bangor, Caribou, Machias, Scarborough, and South Paris.

MVH may also provide non-nursing facility care and services if approved by appropriate state and federal authorities and may construct community-based outpatient clinics for Maine veterans and may construct and operate veterans' hospice facilities, housing facilities, and other facilities using available funds.

Similar to statutory expectations for other quasi-independent state entities,[2] MVH's administration is vested in its Board, who (with the exception of one ex-officio member) serve for 3-year terms and are appointed by the Governor. MVH's board is responsible for appointing a Chief Executive Officer to administer the homes and for adopting and ensuring compliance with rules, guidelines and general policies.

The Board is required to seek funds from public and private sources (including, but not limited to, state and federal appropriations) and all funds received by MVH must be held in a permanent fund to be used for the support and maintenance of the homes. Recent legislation also established a MVH Stabilization Fund for the purposes of assisting the Board in ensuring continuous operations.

Furthermore, MVH's bylaws provide that the Board must ensure that the organization is meeting its purpose and the needs of its constituents through general oversight of its operations and effectiveness. The Board must assist in developing the annual budget, ensure that proper asset and financial controls are in place, and provide adequate resources for the organization to fulfill its mission. The bylaws state that the board is ultimately responsible for adherence to legal standards and must certify that the organization is performing its mission in accordance with medical, legal, and regulatory requirements and standards.

MVH's governing statute explicitly provides that the Legislature and every department and agency of the State may furnish such assistance, counsel, or advice as the Board may request or require in the discharge of its duties.[3] See page 23 for more information on Board oversight.

[2] See 5 MRSA §§12021-12024.

[3] 5 MRSA §191 requires the Attorney General's (AG) office to represent the head of any state department, the head of any state institution and agencies of the State in all civil actions and proceedings in which the State is a party or interested, or in which the official acts and doings of the officers are called into question. All legal services required by those officers, boards, and commissions in matters relating to their official duties must be rendered by the AG or under the AG's direction and officers or agencies of the State may not employ private counsel except upon prior written approval of the AG. In the case of MVH, it appears that private counsel is routinely retained outside of this statutory requirement. This was outside the scope of OPEGA's review.

State Reporting

MVH must report annually to the Governor and the Joint Standing Committee on Veterans and Legal Affairs. The annual report must contain a copy of audited financial statements, statistics on members who resided in the homes during the year, any amendments to the rules regarding the administration of the homes made by the board since its last annual report on the administration of the homes, a description of any efforts to seek funding, recommendations to the Governor and Legislature, and information regarding such other matters as the board considers pertinent.

Although MVH is not a reporting entity under 5 MRSA §12021, which requires specific quasi-independent state entities to adopt specific financial policies and procedures on: procurement and competitive bidding; travel, meal, and entertainment expenses; and contributions,[4] MVH nevertheless has adopted policies and procedures that appear to meet some of these statutory expectations.[5]

Current Operations and Structure

Today, MVH operates as a non-profit organization[6] in the six locations: Augusta, Bangor, Caribou, Machias, Scarborough, and South Paris. MVH had a total of 628 beds and an average daily census of 574 residents for fiscal year 2024 – with 1,185 residents in total over the course of the fiscal year. MVH also operates a pharmacy which serves both MVH's six homes as well as an additional 15 external long-term care facilities. MVH provides assisted living/residential care, long term care, short term skilled nursing care, rehab and therapy, dementia and memory care, and respite care services to its eligible veterans, spouses, and gold star parents.

MVH is overseen by its Board of Trustees. The organization is led by a Chief Executive Officer, who in turn leads the Senior Executive team. These include: the Chief Financial Officer, who oversees the Controller and finance team; the Chief Operating Officer, responsible for the day-to-day operations of the homes; the Chief Human Resources Officer, who oversees human resources, recruiting, and marketing. Each of the six homes are administered by a licensed Home Administrator.

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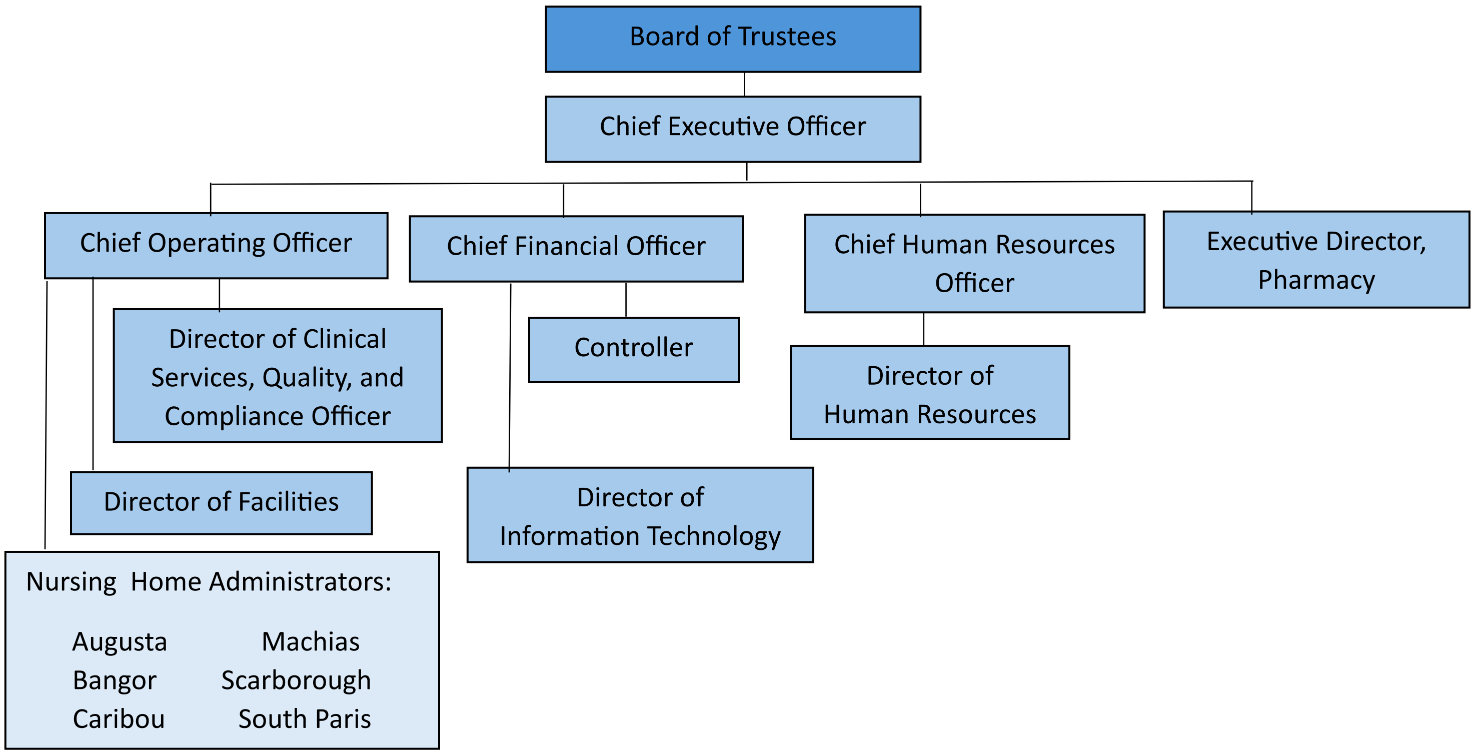
[4] These reports are reviewed by the relevant policy committees in the second year of each biennium.

[5] Reporting entities are also prohibited from retaining any person, other than entity staff, that is required to register as a lobbyist. As MVH is not a reporting entity, MVH has retained lobbyists and lobbyists are currently registered with the Maine Ethics Commission on its behalf.

[6] According to a comparative analysis performed by BerryDunn as part of a stakeholder group studying the long-term viability and continuous operation of MVH, this structure is unique in that comparative states' veterans' homes are owned and operated by their respective states.

Maine Veterans' Homes Management Structure



Recent Cash Flow Issues

55% of the MVH patient population receives care through MaineCare, which reimburses MVH at a standard rate. MVH management described to OPEGA and to the VLA Committee that MaineCare reimbursement rates have consistently been below the average cost of care with the cost gap increasing over time.[7] This cost gap was exacerbated by low census numbers during the COVID-19 pandemic, beginning in 2020. Additionally, workforce shortages began at this time, increasing the use of more costly contracted labor at MVH.

It is in this context that OPEGA reviewed MVH's audited financial statements, which demonstrated a sharp decrease in net cash, with an operating loss of $2.2M in FY20 to a loss of $18.3M in FY21. This operational shortfall impacted MVH's ability to pay invoices to its vendors when due, leading to late payments and incurring late fees.

MVH's Central Office Finance and Board finance committee managed this cash flow issue by prioritizing paying certain vendors that provided supplies and services most directly related to resident well-being, including medications, utilities, and temporary staffing. MVH management describe several instances of select vendors shutting down accounts and threatening not to deliver goods, however, without any direct impact to residents.

[7] MVH also reported that this issue is not unique to MVH but is part of a broader trend plaguing the nursing home industry as a whole.

While MVH was struggling to pay its vendors, the agency did have reserve funds available. MVH began drawing down on its investment portfolio to support operating cash needs beginning with a $1.5 million withdrawal in June 2022 and $7.75 million in withdrawals in FY23. MVH waited, however, until early 2024 to draw down additional funds to pay off overdue accounts payable. MVH management and board members described their waiting to withdraw those funds as based on the Legislature having passed LD 985 (which would provide one-time funding for FY24) and waiting for those funds to become available, as well as not wanting to forgo investment earnings. That bill included lump sum payments for nursing facility—but not residential care—residents enrolled in MaineCare. There was a delay in determining the appropriate payment amount. According to MVH, they received the final (but less than originally expected) payment related to LD 985 in January 2025.

For FY24, MVH reports that it withdrew $4.5 million from its investments in 2023 and another $5 million in early 2024 to pay vendors and payroll. MVH's investment portfolio is now at about $15 million in assets (down from $30 million in FY22), and the operating deficit has reduced recently, with FY24 incurring an operating loss of $8.2 million (compared to FY23's operating loss of $17.1 million).

In 2024, the Legislature passed the supplemental appropriations bill, Public Law 2023, Chapter 643, providing funding of $13.3M to MVH for FY24-25. MVH reports that payment has not yet been made to MVH as of the date of this report.

Our Approach

OPEGA's initial fieldwork focused on understanding the risks and internal controls within the financial processes of several areas: MVH Board oversight, budgeting, payroll, pharmacy operations, purchasing, and accounts payable. To do that, we performed the following work:

- interviewed MVH Board members, management, finance staff, home administrators, department heads, and users of MVH's purchasing system;
- obtained and reviewed MVH's historical and current documented financial policies and procedures;
- obtained and reviewed MVH's audited financial statements; and
- reviewed MVH's legislative history, including authorizing legislation, current statute, and recent state appropriations.

In conducting this work, we found that MVH had made (or was in the process of making) several recent changes to policy, practice, controls and/or processes that were relevant to the scope of this review. Among these changes were the following:

- In March 2023, the then MVH CEO proposed a plan that would strengthen Board oversight. This plan, which was ultimately approved by the Board, directed the Board to increase the frequency of their meetings, directed each Trustee to serve on at least one standing committee, and advised standing committees to recruit external members with needed professional experience. See page 23 for more on Board Oversight.
- In response to previously identified concerns related to pharmacy finances and operations, MVH engaged a law firm specializing in health care and pharmacy matters to conduct an audit of the areas of concern. The results of that audit led to the MVH Board approving two additional engagements with external consultants: one focused on pharmacy efficiency, regulatory issues, and profitability; and one focused on financial controls. The consultants provided findings and recommendations to MVH, which were in various stages of implementation at the time of OPEGA's review.[8]
- In July 2023, MVH transitioned to a paperless procurement software system called Procurement Partners.
- MVH also reported discontinuing several practices:
    - During the COVID-19 pandemic, MVH implemented a program in which meals were provided to employees to minimize the need for employees to go outside the homes to stores and restaurants to purchase meals. This program is no longer in place.[9]

[8] OPEGA did review these findings and recommendations as part of our risk assessment.

[9] This program should not be confused with a separate program, MVH's employee food cooperative, that is offered by some of the homes. Through this program, an MVH employee may order food through the home's food supplier(s) to take advantage of the pricing MVH receives. The employee is then required to pay MVH for the food at cost before receiving it.

- MVH formerly had an employee emergency loan program in place to assist staff in paying for personal emergencies, such as car repairs, which would then be paid back through the employee's payroll deductions over a set amount of pay periods. This program was ceased by MVH.
- During our preliminary inquiry, OPEGA reviewed expenses which included a lease on a property in the town of Old Orchard Beach. We learned that this was needed for contracted staff during the COVID-19 pandemic, particularly at the Scarborough home, and was a justified use as a short-term property lease contract. This arrangement is no longer in place.

OPEGA considered these changes, in addition to what we learned about the various financial processes, in the broader context of MVH's cash flow issues to conduct a risk assessment to determine which areas were of highest risk and most in need of further OPEGA review and testing. Ultimately, we selected MVH's accounts payable process, and the extent to which that includes purchasing, for further work.

That further work included obtaining MVH's accounts payable data for FY20 through FY24 (five years of data). FY24 accounts payable data was later used to select a judgmental sample of invoices and transactions to test for the presence[10] of various issues and potential control weaknesses. Selected invoices, general ledger entries, payments, and supporting documentation were reviewed for 50 transactions—many of which spanned multiple invoices. The identified issues and recommendations resulting from the testing are presented beginning on page 11, (which is preceded by our description of the purchasing process and procurement system, beginning on page 9 for context). Information learned about other financial processes not selected for further work are presented in page 23.

[10] We employed stop-and-go sampling, which is a technique that allows reviewers to stop testing as soon as sufficient evidence is gathered to make a decision – in this case, whether a control weakness or other issue existed. As such, we cannot comment on how often identified issues and weaknesses occur.

Purchasing and Accounts Payable Overview

Throughout the MVH system, purchases may be made by authorized employees. MVH's purchasing policy governs purchasing limits, including purchases requiring competitive quotes and purchases requiring varying levels of approval. The majority of supplies and goods purchases are made from the individual homes. Central Office Finance is ultimately responsible for the payment.

Prior to July 2023, MVH maintained a paper-based purchasing system. Once a purchase was made and the home received the order and paper invoice, the manager of the department would hand write a general ledger code on the invoice and transmit it to the administrative assistant of the home. This person, in turn, would create a list of the invoices, batch them, and send them to the Home Administrator to sign off on their approval of the purchase. The paper invoices would then be sent to Central Office accounts payable (Central Office AP) via courier. In Central Office AP, the accounts payable accounting assistant would key invoice details, including date, amount, and home the invoice is associated with, into an accounting software system called Abila. Accounts payable would then pay invoices weekly, selected based on payment terms.

MVH management identified several weaknesses in the paper invoice process, including:

- invoices becoming lost in the transport between offices within homes;
- invoices becoming lost in the transport from homes to Central Office AP;
- manual human error, such as entering the wrong date or wrong amount;
- manually entering invoice numbers differently, creating duplicate invoices; and
- previous balances added to new balances, causing balances to be paid twice.

These control weaknesses caused MVH to implement a paperless procurement software system in 2023. MVH management described their desire to go paperless to reduce payment delays and errors from lost and duplicate paper invoices. Additionally, they were interested in giving staff and management better information about purchasing patterns to create opportunities for cost savings. Procurement Partners software was chosen for reasonable cost, as well as its compatibility with Abila.

Procurement Partners

In early 2023, MVH signed a three-year contract for Procurement Partners and began inputting the organization's general ledger (GL) codes and creating "punchouts" that allow purchasers to enter common vendors' websites for ordering from the procurement platform. The system went live in July 2023. The Director of Facilities visited all the homes to train staff with purchasing responsibilities to use Procurement Partners for orders and to process invoices. Staff reported that the vendor offers training and refresher resources online. The last department to begin using Procurement Partners was the Pharmacy in July 2024.

To place an order in Procurement Partners, purchasers select "punchout" and indicate which vendor they are ordering from. The Procurement Partners punchout allows the purchaser to select the vendor through the Procurement Partners system, browse the vendor’s online catalog, and then finalize the purchase of goods or services within Procurement Partners itself.[11]

After the order is delivered, the purchaser logs into Procurement Partners, finds the invoice, ensures that it matches the delivery, enters the GL code(s) into the invoice, then approves the invoice as the purchaser. Then a manager (often the same person that made the purchase) must approve the invoice. The invoice then automatically routes to the Home Administrator for final approval.

Purchasers also make purchases outside of Procurement Partners. In those instances, the purchaser submits an order on the vendor website or through another avenue. The vendor sends the invoice to the purchaser either through the Procurement Partners platform or directly to the home. Either way, after the order is delivered, the invoice will be uploaded to Procurement Partners. From there the process is the same as for punchout orders. Once an invoice is approved by the Home Administrator, Central Office AP staff export it out of Procurement Partners and into Abila to process it for payment.

MVH management acknowledged a long rollout process due to staff turnover and that some staff at the homes struggled with making the transition to Procurement Partners. In July 2024, we observed that many invoices in Procurement Partners were “stuck,” as they were not fully approved or moved along for payment within the system. In fall 2024, however, OPEGA verified that this backlog of invoices had been resolved with the assistance of a temporary staff person.

MVH policy indicates that all purchases should be processed through Procurement Partners, with exceptions including petty cash, travel expenses, licensing fees, insurances, and staff education reimbursement.

[11] Examples of Procurement Partners punchouts used by MVH include, but are not limited to, large vendors such as Amazon, Home Depot, and McKesson.

Accounts Payable Issues

MVH's ongoing cash flow issue prevents all bills from being paid as they are received and thus necessitates that MVH manage and control its accounts payable process to issue payments in a manner designed to ensure that services and the supply of goods critical to the care of residents are uninterrupted.

Through interviews, policy review, and a focused review of sampled invoices and transactions, we evaluated MVH's accounts payable process and assessed selected controls within that process (see page 8 for more detail). We identified several interrelated issues that directly contribute to some invoices or charges being paid more than once, and, ultimately, hinder MVH's ability to manage its cash flow.

Decentralized Accounts Payable Process

MVH's decentralized approach effectively spreads the accounts payable invoice entry and approval functions across multiple individuals, departments, and locations, rather than Central Office AP staff entering and coding invoices. Both MVH staff and vendors can email or upload invoices to Procurement Partners for review, coding, and approval by MVH staff at the homes. We observed that this approach has created an environment in which the following issues can and do occur at homes or departments:

- submitting or entering the same invoice more than once for payment;
- submitting the same invoice through both Procurement Partners and Central Office AP manual entry for payment;
- (incorrectly) submitting statements rather than invoices for payment
- receiving invoices, but not submitting or entering them in a timely fashion for payment;
- providing supporting documentation inconsistently; and
- incorrectly or questionably coding expenses.

Lack of Established Policies for Select Areas

In light of MVH's decentralized approach to accounts payable, we expected to find overarching and uniform policies in place to guide MVH staff practice at the various homes in two key areas: petty cash and the use of charge or store credit cards/accounts.

❖ **Petty Cash Policies**

We found that while Central Office had an established policy for its use of petty cash, the homes, with the exception of Machias and Bangor, did not. Rather, while some of the remaining homes reported following the Central Office policy, we found that in practice the Central Office policy has specific dollar limits and personnel roles and responsibilities that are not applicable to the homes. For example, the Central Office policy requires the Accounting Manager to reconcile the petty cash box by totaling the remaining funds and the signed receipts issued for cash purchases and provides that the combined total should be $500, effectively establishing a $500 limit in the account. The homes, on the other hand, generally have multiple petty cash accounts, such as one for operations and another for activities, each of which have their own dollar limits, and which run anywhere from $100 to $1,250. The staff members responsible for reconciling the petty cash accounts also appear to vary, depending on which petty cash account is being used, as the homes do not maintain a written policy with an established person of record to handle the petty cash.

- **Store Credit Card Policies**

Additionally, we found that while there was an established policy governing the use of MVH's organization-wide credit card, the homes had varying charge or store credit cards or accounts with no such policies governing their use. Per their policy, the organization-wide credit cards may only be issued to certain key employees—such as the Home Administrators—and are managed by the Central Office Finance staff, which includes the use of a centralized credit card log listing the names of employees and relevant credit card information.

The store credit cards, on the other hand, are held by various department heads and staff and/or the homes' administrative staff, such as an administrative supervisor or head receptionist. For example, a food director might hold a Hannaford card, or an activities director might have a Walmart card. The store credit cards accounts are intended for flexibility, to be used infrequently to supplement items not included in the regular supply chain or to purchase items that are needed immediately, and it is OPEGA's understanding is that these cards may only be used at the issuing vendor.

While opening a store credit card/account requires approval from the Central Office, in practice this approval is not always in writing, and there is no master list of the store credit cards/accounts and cardholders as there is with the organization-wide credit cards. Therefore, it is unclear how many of these store credit cards have been issued to MVH employees.

Additionally, while the organization-wide credit card policy requires that those credit card statements be received and processed by the Finance Department and to be paid in full on a monthly basis and in a timely manner to avoid late fees and interest charges, the store credit card statements are mailed directly to the individual homes, who then submit the statements to Accounts Payable for processing and payment similar to all other trade accounts.

OPEGA heard reports that cards have been shut off due to non-payment, and that in one instance Central Office Finance staff was unable to access an account because the vendor would not speak with them.

Systems Related Issues and Limitations

As stated earlier, in July 2023, MVH implemented a new procurement software system—Procurement Partners—to move away from a paper invoice system and to give staff and management better information about purchasing patterns and spending to create cost-saving opportunities.

With Procurement Partners, MVH staff may make purchases through vendor websites or other avenues (including directly through vendor punch outs in Procurement Partners) with both vendors and staff being able to submit invoices through the system for MVH staff – managers and home administrators—to approve. Approved invoices are exported to MVH's accounts payable software, Abila, to be queued for eventual payment.

However, during our review, we observed system-related issues and limitations of the Procurement Partners software system.

- **Not all invoices can be processed through Procurement Partners**

Although most invoices are processed through procurement partners, there remain some invoices that must be manually entered by Central Office AP staff into Abila because Procurement Partners either does not support the expense coding required for those purchases (ancillary expenses[12]) or the invoice amounts need to be split across multiple homes. Other types of "invoices," such as petty cash reimbursements and miscellaneous check requests are also processed outside of Procurement Partners and must be keyed into Abila manually. Because these invoices are not processed through Procurement Partners, the system is not able to be used as a real-time budgeting tool for select general ledger accounts, limiting its effectiveness in that area.

- **Invoice numbers – for even the same invoice – can be misread by Procurement Partners, preventing duplicate invoice entries from being flagged**

When invoices are uploaded to Procurement Partners, either because the invoice is submitted by email or uploaded by an MVH employee, the Procurement Partners software has an optical character recognition functionality that "reads" the invoice and populates certain information into the system, such as the invoice number. MVH staff must then verify that any optically read information is correct, and then add any additional information as necessary. Although we heard that the optical reader is getting better, we nevertheless observed instances where duplicate invoices – with the same invoice number – were apparently "read" differently by the system and not caught by manager review. Because only invoices with exactly the same invoice number will be flagged as a duplicate in the system, these "misread" duplicates may not be flagged, increasing the risk of duplicate payments.

- **Two food vendor punchouts in Procurement Partners generate simulated invoices with incorrect invoice totals, requiring manual entries of credits/debits by Central Office AP staff to pay correct amounts**

For purchases made through the Procurement Partners punchouts, the system automatically generates an invoice based on the order rather than the vendor submitting the invoice. However, we observed that two food vendor punchouts in Procurement Partners appear to be generating these simulated invoices with incorrect totals, requiring manual entries of credits and debits by Central Office AP staff in order to pay the correct amounts, and adding to the administrative burden.

[12] Ancillary services are medical items or services identifiable to a specific resident furnished at the direction of a physician and for which charges are customarily made in addition to the daily reimbursement rate. [MaineCare Benefits Manual, Chapter III, Section 67]. The largest expenses are pharmacy drugs and also include services such as labs, x-rays, and external therapy providers.

- **Some data – particularly long invoice numbers – experience conversion issues between Procurement Partners and Abila, resulting in the accounts payable data containing invoice numbers and totals that do not exist[13]**

Once an invoice has been processed and approved in Procurement Partners, the next step is for the approved invoices to be exported to the AP software, Abila, for payment processing. However, we observed that some data—in particular long invoice numbers—experience conversion issues between Procurement Partners and Abila, which result in the accounts payable data containing invoices numbers and totals that do not exist.

- **Procurement Partners does not reflect the purchasing limits (by position) established by the homes in accordance with MVH's purchasing policy**

MVH's purchasing policy provides that each location must maintain a permanent file with the names, titles, and authorization limits of those employees authorized to approve purchase documents. The Procurement Partners system is set up with designated "users," who can create orders, and "managers," who are the department heads and Home Administrators who can approve purchases within their respective area of responsibility. However, the Procurement Partners software does not include spending limits within the system, and therefore the system will not prevent a purchaser from spending above the purchaser's authorized limit.

- **Different vendor names and records for the same vendor in Procurement Partners and Abila**

Vendors must be established in Procurement Partners and Abila in order for invoices to be processed for payment. When a home receives an invoice from a new vendor, the home is responsible for contacting Central Office AP who creates a new Vendor ID in Abila, and then makes that vendor available in Procurement Partners. However, we observed a situation in which invoices issued by the same vendor and paid to the same address appeared under two different Vendor IDs.

Additionally, through interviews with staff, it became apparent that the purchasing and accounts payable departments within MVH were not well-aligned as the functionality of the current systems (and issues with that functionality) did not address the needs of both departments.

MVH staff shared with us that the impetus for moving towards an automated purchasing system was to reduce the delays and inefficiencies of the paper-based system, to give managers better tools to research discrepancies, and to provide data that might point to cost savings. The purchasing department is looking to maximize the functionality of the Procurement Partners system, of which invoicing is one component, but also includes looking for those opportunities to examine spending and find cost reductions and efficiencies. While it is an important focus of the purchasing

[13] In these cases, the invoice totals will be the sum of multiple invoices for the same vendor, and the payment to the vendor will be correct. However, to the extent that the accounts payable data is used to track a specific invoice, the data will be incorrect.

department to process and approve invoices, the needs of the AP department to have consistent, timely and accurate financial data requires a more holistic approach to both the purchasing and accounts payable systems and processes.

Existing Control Deficiencies

The effectiveness of MVH's accounts payable process—like that of any process—can be impacted by human errors. That is what we observed in many cases as staff mis-keyed or mis-entered critical information (such as the invoice number, invoice date, or even vendor name), as well as selecting the wrong vendor in either Abila or Procurement Partners – leading to payments being made to the wrong vendor.

To mitigate the risks of human error, organizations employ preventive controls to catch these types of mistakes before payments are issued. MVH also does this, although we noted deficiencies in two of its controls:

- ❖ **Invoice number controls require exact matches**

One of the stronger controls in place within the accounts payable process is that both Procurement Partners and Abila will flag duplicate entries of the same invoice number. A limitation to this control, however, is that not all vendors provide invoice numbers. When that occurs, MVH staff will generate the invoice numbers. We noted issues that limit this control's effectiveness in these situations.

MVH does not have an established naming system or uniform guidance for staff in different facilities to use in generating invoice numbers when a vendor has not provided an invoice number. We observed invoice numbering by MVH staff that was inconsistent. For example, the same invoice might be entered as "#INT-9406" by one person and "INT 9406" by another. Procurement Partners and/or Abila would not recognize these invoices numbers as duplicates, leading to the same invoice being approved for payment. Similarly, invoice numbers keyed or generated by MVH staff often include the date of the entry, which does not align with those generated in Procurement Partners. If the same invoice were submitted through both Procurement Partners and Central Office AP, it would not be caught as a duplicate.

- ❖ **Inadequate review by managers and Home Administrators**

Managers and, ultimately, Home Administrators review and approve the purchases made on behalf of their department or home in Procurement Partners. However, we observed multiple scenarios that suggest managers and home administrators are not thoroughly reviewing some invoices that they approve.

Once an order is received by a home or department, the purchaser locates the invoice in Procurement Partners, ensures that the order matches the delivery, enters the general ledger code into the invoice, then approves the invoice as the purchaser. Then, a manager (often the same person as the purchaser) must approve the invoice in Procurement Partners. The invoice then automatically routes to the Home Administrator for final approval. The multiple levels of approval are in place as a control to ensure items/services were received, prices are accurate, and the invoice is coded to the appropriate home, department, and general ledger account.

However, we observed instances in which managers or Home Administrators approved invoices that had been entered into Procurement Partners incorrectly. In some cases, approved invoices had an incorrect coding of expenses or were for a purchase made by an entirely different home.

We also observed instances in which managers or Home Administrators made approvals contrary to MVH's expected practice. We observed approvals of transactions that combined multiple transactions together into one invoice. We also observed managers and/or Home Administrators approving statements rather than invoices. The expected practice is to approve the request for payment and the invoice – rather than a statement, which may include a number of transactions – some of which may have already been paid or are in line to be paid. Additionally, we observed approvals of the same invoice by the same Home Administrator multiple times in Procurement Partners –sometimes within minutes of each another.

Staff Not Adhering to MVH's Established AP Process

While MVH does have an established accounts payable process, OPEGA observed instances in which MVH staff made purchases, processed invoices, and made payments that did not conform to the organization's expected practices. These instances included:

- ❖ **MVH staff using MVH's organization-wide credit cards to make purchases that should have been made through Procurement Partners**

MVH's Credit Card Policy states that the purpose of staff credit cards is "to accommodate purchase of items and/or services in situations when traditional payment through the Accounts Payable Process is inappropriate or unavailable." Expected practice is that all purchases should be made through Procurement Partners when possible. However, in FY24, we found over 80 purchases made to an existing Procurement Partners punchout on credit card statements throughout the year, as well as other credit card purchases that appeared to disregard the policy. All activity on sampled credit card statements appeared related to MVH operations.[14]

- ❖ **MVH staff making purchases outside of Procurement Partners and being reimbursed with petty cash**

Central Office Petty Cash Policy states that the purpose of petty cash is to purchase "singular, inexpensive items" "whose quantity or price does not justify check preparation through the accounts payable system or to purchase items that are required to be paid in cash by vendor." Applying that standard to the homes, our testing identified one use of petty cash to reimburse an MVH employee for a purchase made from a vendor with an existing Procurement Partners punchout, whereas the expected practice is to use Procurement Partners for such purposes.

[14] During the course of our review, MVH staff explained that there had previously been fraudulent transactions on one employee's MVH credit card, but the employee was found not to have been responsible for those charges.

- **MVH staff at the homes directly paying invoices that they receive with MVH's organization-wide credit card or petty cash, rather than letting Central Office AP pay it when they determine it should best be paid**

Central Office Finance and AP staff also described situations in which staff at the homes would receive invoices multiple times or communications directly from vendors as a result of their invoices being unpaid. At that point, staff would sometimes pay those invoices with MVH's organization-wide credit card or petty cash, effectively circumventing the accounts payable process. Additionally, any invoices previously entered into the accounts payable process waiting to be paid may ultimately be paid twice, which is what we observed in one case.

- **MVH staff submitting and approving statements rather than invoices for payment**

Accounts payable staff told OPEGA that MVH's expected practice is to make payments based on invoices, not statements. User instructions for Procurement Partners confirm this. However, our testing found four instances in which MVH staff submitted and approved vendor statements in addition to the invoices listed on those statements for payment. We found that those statements were paid, which created duplicate payments.

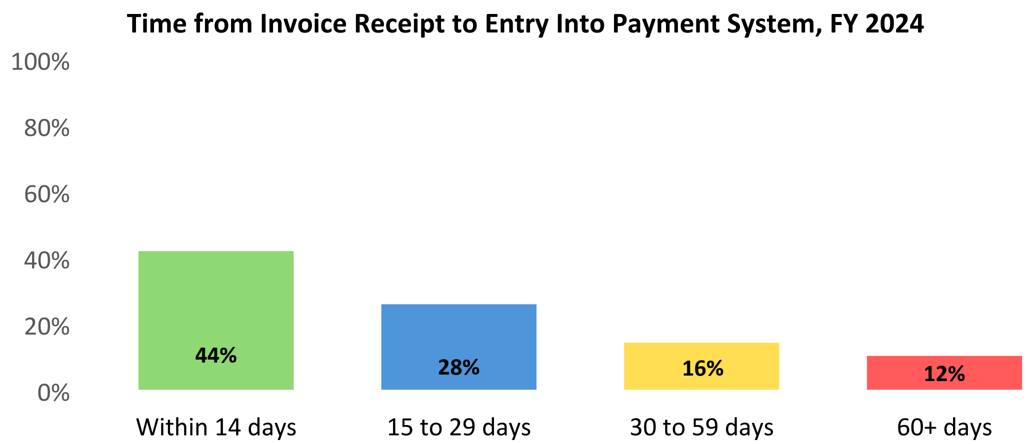
- **MVH staff sending invoices to Central Office AP for manual entry rather than or in addition to submitting them through Procurement Partners**

MVH staff are expected to submit purchase invoices for payment through Procurement Partners unless they use another authorized payment method such as the organization-wide credit card or petty cash. In interviews, staff at both Central Office and the homes explained that some paper invoices are still mailed to Central Office AP. This can lead to duplicate payments when the same invoices are also submitted through Procurement Partners. Our testing identified five instances where invoices were submitted both through Procurement Partners and Central Office AP, causing duplicate payments.

- **MVH staff not submitting invoices for payment timely**

OPEGA calculated the time between invoice date and entry into Abila for payment of MVH's fiscal year 2024 transactions. Vendors typically request payment within 30 days. While 44% of invoices (6,801 of 15,590 invoices) were entered into the payment system within 14 days, more than one-quarter (28%) of invoices (4,449 of 15,590 invoices) were not entered into the system for payment until more than 30 days after date of invoice[15] (see the following chart). Notably, 816 invoices were entered between four months and one year after the invoice date and an additional 131 invoices were entered over a year after the invoice date.

[15] Some number of these may have resulted from the vendor not sending invoices to MVH in a timely manner. From the data available, we are unable to quantify the extent to which this occurred.



MVH's Ongoing Cash Flow Issues Exacerbate Accounts Payable Process Issues

All of the aforementioned issues are directly impacted by MVH's ongoing cash flow issues as invoices that can't be paid in accordance with vendor payment terms (or in an otherwise timely manner) can result in both vendors and MVH staff taking actions that introduce additional risk of duplicate payments and increase administrative burdens.

Primarily, vendors—and MVH homes—will resubmit the same (unpaid) invoice expecting that action will get the invoice paid at that time. We observed multiple instances of the same invoices being resubmitted and approved for payment, with some resulting in duplicate payments being made to vendors.[16]

Vendors may also include unpaid amounts or previously due balances on subsequent invoices that are mistaken by MVH staff as new (additional) expenses to be paid. When entered and approved as such, this results in the previously due balances being paid twice.

As described earlier, MVH staff at the homes may pay outstanding, unpaid invoices with the avenues available to them – petty cash and the organization-wide credit card – which circumvents the AP process and MVH's cash flow management while the originally submitted invoices are still in the system to be eventually paid.

Some Expenses May Not Represent the Best Use of MVH Resources and/or Appear Incongruent with Current Cash Flow Issues

MVH has reported acute cash flow issues dating back to the pandemic in FY20, and, as a result of those issues, has been unable to pay all of its bills as they come due, which caused MVH's outstanding accounts payable to accumulate over time. MVH reports that the Board approved drawdowns of investments of $18.5 million from June 2022 to February 2024 for payroll and to address the backlog of payables.

Despite the drawdowns from MVH's investments, cash flow issues continue and MVH remains unable to pay all bills as they come due. Instead, the organization must select which bills to pay

[16] Over the course of our testing, we identified 12 duplicate payments made to vendors; MVH reports that all of these were either credited or returned to MVH by vendors.

during its weekly check run. MVH staff explained that this selection process prioritizes expenses related to patient care (particularly any services or supplies in danger of being stopped by vendors) and payroll, and then remaining invoices by due date.

Considering that environment and the actions taken by the Board, we noted three[17] categories of expenses during our analysis and review of FY24 transaction-level data in which the type, amount, and/or frequency of certain expenditures[18] did not appear to represent the best use of MVH funds, particularly in light of the current cash flow issues. These categories of expenses are described below:

❖ **Late Fees**

In FY24 alone, $259,000 in late fee charges were assessed to MVH. Over 98% of that came from two vendors: a travel nurse staffing agency and MVH's primary medical supply provider. While we have not reviewed the totality of MVH's financial position and decision-making, this appears to be a significant expense that may have been avoided had MVH accessed more of its investment funds earlier.

❖ **Membership Dues**

Over $59,000 in expenditures was coded to "Dues" in FY24. Approximately 93% was for existing membership dues – primarily a state level association (70.8%) and a national level association (10.6%). The remaining balance was used to become a new member of a local chamber of commerce.

❖ **Staff Recognition Expense**

In FY24,[19] MVH spent $48,000 that was coded to "Staff Recognition Expense." However, MVH has no policy outlining how these funds are to be spent and that was reflected in the wide range of goods and services that were purchased – many of which appear to be far more discretionary in nature than other, direct-care expenses. As examples of this, we noted the following totals and individual expenditures related to meals, gifts, and sponsorships:

- One small department had 24 separate charges to local restaurants totaling $3,600, appearing to purchase lunch every other week.
- Over $3,100 was spent on flowers for MVH staff throughout the year.
- One home spent a combined $1,400 at two local restaurants across only two transactions.
- A single tote bag – assumed to be a gift of some sort - was purchased for $168. Other potential gifts appear to have been purchased from a ski, board, and bike shop; an outdoor store; a sporting goods store; and a watch company.
- $500 was spent to sponsor an award at a conference.

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[17] This does not mean that we determined that all other categories of expenses were without question. Instead, the three categories described in this section were the most easily identifiable for us.
[18] A distribution of FY24 expenses by account may be found in Appendix A.
[19] As provided by MVH, previous year Staff Recognition Expense totals (rounded by OPEGA) were $120,000 (FY21), $79,000 (FY22), and $36,000 (FY23).

OPEGA Recommendations

1) MVH Should Review Its Accounts Payable Process and Make Appropriate Changes

Accordingly, MVH should review and evaluate its current accounts payable process holistically (from purchase to payment) and make appropriate changes to mitigate risks, prevent duplicate payments, and better manage the organization's cash flow.

MVH should consider the needs and responsibilities of purchasers, approvers, and Central Office AP staff; the strengths and weaknesses of the current software; and the issues and control weaknesses identified in this review. Ultimately, any changes made should attempt to address the following areas:

- Establish additional overarching policies for the homes.
- Establish additional standardized procedures for accounts payable processing.
- Ensure invoices are submitted and entered in a timely manner.
- Prevent MVH staff from circumventing the established accounts payable process.
- Ensure required supporting documentation is provided.
- Ensure invoices and coding are sufficiently reviewed and approved.
- Reduce the likelihood of errors and administrative time spent correcting errors.
- Limit multiple submissions of the same invoice.
- Identify and prevent duplicate payments.

Recommendations for MVH Accounts Payable
a. MVH should establish a petty cash policy that is applicable to each of the homes and their various petty cash accounts.
b. MVH should establish a policy governing the opening and use of charge or store credit cards/accounts, or, alternatively, transition the organization to procurement cards and establish a policy governing the use of procurement cards.
c. MVH should establish a consistent naming system for generating invoice numbers (when one is not provided by a vendor), that, to the greatest extent possible, allows for the detection of duplicate invoices. This naming system should be consistent across both Central Office AP and the homes, as well as the purchasing and accounts payable software systems.
d. MVH should strengthen existing Central Office AP procedures related to the processing of invoices, payments, and the accounting of invoice and payment reversals and credits.
e. MVH should communicate the specifics of all newly created or revised policies and procedures and other process changes to MVH staff.
f. MVH upper management should communicate to MVH staff the importance of adhering to established policies and procedures.

2) MVH Should Establish a Policy Specifying Allowable Uses of Funds Coded as "Staff Recognition Expense"

When experiencing cash flow issues, MVH should consider whether to limit certain types of expenses – which, as reported by MVH, has occurred to some extent. Still, we noted some expenses that appeared far more discretionary in nature than other resident-related expenses, particularly those coded as "Staff Recognition Expense."

Through our data analysis and invoice review, we observed that these expenses varied greatly—from the type of service or goods purchased to the frequency of those purchases, as well as the distribution of expended funds across departments, homes, and even employees. When we asked MVH for a policy or other guidelines as to what is an allowable expense, we learned that there was no such policy.

To the extent that MVH remains committed to using these expenses as a staff retention tool, we recommend that MVH establish a policy that outlines how such funds may be used. Ideally, this policy should specify when staff recognition expense purchases can be made, what can be purchased, the frequency of such purchases, and acceptable amounts.

Descriptions of Other Areas Considered

The initial concerns brought to the attention of the GOC included financial controls related to payroll and pharmacy financial operations, as well as information provided to the Board for oversight of financial operations. As discussed on page 7, OPEGA conducted several interviews of MVH staff, board, and external auditors; reviewed MVH policies and procedures; reviewed internal and external audit results; and reviewed additional materials related to these concerns. We conducted a risk-based assessment, and determined these to be areas of lower risk, based on changes that have been made by MVH management and board. The following is a description of other areas we considered as part of our evaluation.

Board Oversight

The MVH Board of Trustees has 13 members: 12 members appointed by the Governor plus the Director of the Bureau of Maine's Veterans Services. A majority of members must be honorably discharged veterans. Members serve three-year terms and there is a limit of three consecutive terms. Board members do not receive compensation or reimbursement of expenses unless authorized by Maine Revised Statutes, Title 5, Chapter 379. The Board reviews and approves the annual budget, ensures there are adequate reserve and investment funds, reviews and approves select contracts, oversees the annual external audit, and reviews the CEO's performance.

There are three standing committees: Executive, Finance, and Quality Operations. In 2023, the CEO proposed, and the Board approved a *Reimagining Board Operations* statement that proposed more frequent Board meetings, that each Trustee serves on at least one standing committee, and that the committees may recruit external members to bring needed professional experience. The Board now meets every other month, and the committees meet in the off months. The Finance Committee has two additional meetings dedicated to audit and budget.

The Finance Committee oversees MVH finances "to ensure the company achieves its financial and risk mitigation goals." It regularly reviews MVH financial statements, plans and reviews the annual external audit, reviews investments, and reviews and approves the organization's budget. The Finance Committee sets strategic goals, reviews, and approves the budgets proposed by management, and regularly reviews budget to actual expenditures. The Committee also approves any spending and borrowing above set limits.

The Board conducts an annual evaluation of the CEO, including any compensation recommendations. The Board must approve bonuses or incentives to senior executive staff. Policy states that other staff bonuses or incentives are to be reported to the Finance Committee as part of monthly financial reporting.

OPEGA reviewed the past several years' communications from MVH's external auditor to the Board and did not identify any areas of concern. In interviews with staff and Board members, descriptions of financial information provided to the Board were consistent. Board members interviewed expressed confidence in MVH staff leadership and said that the Finance Committee receives detailed financial information monthly and is thoroughly involved in financial oversight of MVH. One member articulated that the Board's core roles are setting organization policy and hiring the CEO. Board members voiced satisfaction with MVH's external financial audits.

Payroll Process

MVH has approximately 1,100 positions and pays all staff every two weeks. Recent monthly financial reports show that each MVH biweekly payroll costs about $1.5 million in pay, $300,000 in health insurance premiums, and $275,000 in Maine Public Employee Retirement System contributions.

MVH's procedures set accountabilities for payroll, including that the Payroll Manager processes bi-weekly payroll in an accurate and timely manner; the Controller oversees the payroll process and transfers funds for direct deposit; and the CFO provides broad oversight of wage payments to employees.

Staff work time and attendance is tracked using the Attendance on Demand (AOD) software system, and paychecks are created using Paylocity software. MVH has created sync files to ensure that staff information is continually updated in both systems and to transfer each payroll batch from AOD to Paylocity once all staff timecards are reviewed and approved.

Routine payroll error checks include verifying stipends, incentives, and different rates of pay; ensuring no terminated employees are paid; checking for any payees with invalid employee badge numbers; checking for timecards with double or more the usual hours, individuals with more than one paycheck, negative time off taken, and many other routine error checks.

Regular payroll audits are governed by practices developed and updated by Central Office Finance staff. These include verification of rates of pay and extra pay, such as bonuses and stipends, as well as reviewing changes made to employee records over the prior two weeks. Additionally, the Compliance Office regularly updates the Board with a monthly payroll audit report, ensuring rates of pay are reasonable and noting any changes to direct deposit accounts.

The Board's Compensation Philosophy states that annual wage increases will be provided to keep MVH competitive in the labor market. MVH periodically assesses wage scales to ensure alignment with other employers in the field. CEO compensation, annual increases, bonuses and incentives for upper-level management are determined by the Board. Additional pay in the form of bonuses or incentives may be authorized for unusual circumstances, contingencies, or for purposes of retention.

Pharmacy Financial Operations

MVH includes a long-term care pharmacy, based in Augusta, serving MVH residents and external nursing facilities. The pharmacy was created in 2010 and began contracting with external facilities in 2013. In total, the pharmacy serves approximately 2,000 beds: with roughly 30% internal MVH beds (624 beds in FY24) and roughly 70% external facility beds.

The pharmacy is essentially one entity that segregates two inventories for its two different customers: MVH residents (known as Rx1) and external facilities (Rx2). The two inventories are purchased, stored, and billed separately. Medications for Rx1 are purchased at a discount through a sharing agreement with the federal Department of Veterans Affairs. This discount is not available for Rx2. Prior to September 2024, both sides use the same wholesaler, with two different account numbers. In September 2024, Rx2 changed to a new wholesale vendor. They also have separate Drug Enforcement Administration and National Provider Identifier numbers. While the inventories are separate, the pharmacy employs staff—pharmacists and pharmacy technicians—that may work on either Rx1 or Rx2 prescriptions.

MVH staff described two primary benefits to the Rx1 and Rx2 structure: 1) having an in-house pharmacy better serves MVH's homes and residents, and 2) contributing fiscally to MVH's broader operations as it generates income. The external pharmacy began being profitable in 2023. The revenue from Rx2 goes into the overall MVH budget to offset costs.

MVH's consultant pharmacists provide additional services to external facilities, including clinical consultations, education, and monthly on-site visits to ensure the facilities are meeting accreditation survey objectives.

The pharmacy is overseen by the Director of Pharmacy Operations. Pharmacy finances are managed by the pharmacy finance department. In total, there are 18 full-time staff and two per diem staff.

Appendix A. MVH Expenses Tables

Table 1: MVH Other Expenses, FY24

Expense Category	Account	Total in dollars	Percent of Category Total
Other	Electricity	999,703.93	20.2%
Other	Annual Software Updates	515,600.77	10.4%
Other	Repairs	500,557.08	10.1%
Other	Natural Gas	312,038.85	6.3%
Other	Bank/CC/Late Fee Charges	259,327.23	5.2%
Other	Corporate Wellness Expense	259,305.00	5.2%
Other	Fuel Oil	247,161.16	5.0%
Other	Rubbish Removal	217,328.31	4.4%
Other	Sewer	163,104.48	3.3%
Other	Fire Protection	113,304.18	2.3%
Other	Water	103,585.65	2.1%
Other	Cell Phone Expense	93,259.62	1.9%
Other	Minor Equipment	92,986.54	1.9%
Other	Telephone and WAN Expense	90,513.19	1.8%
Other	Advertising/Recruitment	82,402.72	1.7%
Other	Vehicle Expense	80,310.06	1.6%
Other	Other Employee and Volunteer Expense	64,863.47	1.3%
Other	Equipment Rental Expense	60,853.92	1.2%
Other	Dues	59,459.68	1.2%
Other	Staff Recognition Expense	48,182.92	1.0%
Other	Copier Expense	45,127.40	0.9%
Other	Background Check Expense	42,088.15	0.9%
Other	Meeting Expense	41,009.56	0.8%
Other	COVID Other Expenses	40,237.70	0.8%
Other	In State Travel Expense	39,690.88	0.8%
Other	Corporate Marketing Expense	36,956.04	0.7%
Other	Television Expense	33,743.29	0.7%
Other	Postage Expense	32,834.34	0.7%
Other	Subscriptions	32,162.11	0.6%
Other	Licensure and Certification Fee	31,340.73	0.6%
Other	Propane Gas	31,191.87	0.6%
Other	In State Education Expense	30,290.08	0.6%
Other	General Insurance Expense	22,385.52	0.5%
Other	Unrestricted Donations	22,083.09	0.4%
Other	Training Expense	21,696.99	0.4%
Other	Out of State Travel Expense	19,656.72	0.4%
Other	Resident Transport Expense	10,800.04	0.2%
Other	All Other Accounts (Rolled Up)	53,180.38	1.1%
Total Other		**$4,950,323.65**	**100.0%**

Source: OPEGA analysis of MVH FY24 accounts payable data

Table 2: MVH Purchased Services Expenses, FY 24			
Expense Category	Account	Total in dollars	Percent of Category Total
Purchased Services	Contract Labor Expense	6,941,031.38	57.0%
Purchased Services	Professional Services	2,700,043.28	22.2%
Purchased Services	Ancillary Expense	1,184,319.44	9.7%
Purchased Services	Contractual Services	398,276.83	3.3%
Purchased Services	IS Professional Services	336,029.18	2.8%
Purchased Services	Legal Expense	288,222.66	2.4%
Purchased Services	Medical Director	219,088.00	1.8%
Purchased Services	Accounting Expense	111,960.00	0.9%
Purchased Services	Pharmacy Consultants	661.12	0.0%
Total Purchased Services		**$12,179,631.89**	**100.0%**
Source: OPEGA analysis of MVH FY24 accounts payable data			

Table 3: MVH Supplies Expenses, FY24			
Expense Category	Account	Total in dollars	Percent of Category Total
Supplies	Raw Food Expense	2,521,296.43	46.4%
Supplies	Medical and Nursing Supplies	1,041,778.31	19.2%
Supplies	Supplies	852,344.26	15.7%
Supplies	Incontinent Supplies	397,293.03	7.3%
Supplies	Food Supplements Expense	144,673.66	2.7%
Supplies	Pharmaceutical Supplies	94,813.63	1.7%
Supplies	Raw Food Non-Residents Expense	79,189.84	1.5%
Supplies	Linen Expense	57,420.21	1.1%
Supplies	Paper Goods Expense	50,209.24	0.9%
Supplies	Chemicals Expense	49,144.02	0.9%
Supplies	Emergency Prep Supplies	47,122.89	0.9%
Supplies	Dishes Expense	28,245.36	0.5%
Supplies	Physical Therapy Supplies	25,578.50	0.5%
Supplies	Drugs and Prescriptions Expense	22,120.78	0.4%
Supplies	Medical Records Supplies	14,135.87	0.3%
Supplies	Occupational Therapy Supplies	5,723.30	0.1%
Supplies	Respiratory Supplies	3,166.68	0.1%
Supplies	Speech Therapy Supplies	2,202.63	0.0%
Total Supplies		**$5,436,458.64**	**100.0%**
Source: OPEGA analysis of MVH FY24 accounts payable data			

Agency Response

See Following Page

MAINE VETERANS' HOMES
caring for those who served

March 21, 2025

Director Peter Schleck
Office of Program Evaluation and
Government Accountability
Maine State Legislature
82 SHS, Augusta, Me 04333
Peter.Schleck@legislature.maine.gov

RE: Response of Maine Veterans' Homes to OPEGA draft program evaluation report under 3 M.R.S. Sec. 997

Director Schleck,

Maine Veterans' Homes is grateful for the opportunity over the past year to work with the professionals in your office. We are a large organization with more than 1,100 employees, six homes around Maine, a central office and a pharmacy. We are proud of the work we do for Maine's veterans. And in service to this mission, we are constantly looking to improve. Any organization as large and decentralized as ours will benefit from a thorough look by a group of outside experts. OPEGA, with its professional and thorough approach, has provided Maine Veterans' Homes with valuable insights that we are already putting into practice.

Because of OPEGA's collaborative approach, we have been aware for some time of the general areas where it was most likely to identify issues and recommend new or improved processes. This means we have had a head start in working to address OPEGA's anticipated recommendations through, for example, taking steps to implement a Purchase Card system across the organization to replace the old system of using store credit cards, or ironing out the remaining kinks with Procurement Partners, our relatively new procurement software that replaces the organization's previous reliance on paper invoicing. We explain the many other things Maine Veterans' Homes is doing to increase our efficiency and effectiveness below.

It should also be emphasized that as valuable as OPEGA's insights might be, their scope pales in comparison to the overwhelming funding crisis that continues to face Maine Veterans' Homes. We are committed to implementing OPEGA's recommendations and making our organization as efficient as possible, but even after this task is complete, Maine Veterans' Homes' survival will continue to depend on significant and predictable funding from the State of Maine. Because of issues outside of our control—staffing shortages and reimbursement rates in particular—the State of Maine must step up and help us fulfill our crucial mission.

Augusta	Bangor	Caribou	Machias	Scarborough	South Paris	Central Office
35 Heroes Way	44 Hogan Road	163 Van Buren Road	32 Veteran Way	290 US Route 1	477 High Street	460 Civic Center Drive
Augusta, ME 04330	Bangor, ME 04401	Caribou, ME 04736	Machias, ME 04654	Scarborough, ME 04074	South Paris, ME 04281	Augusta , ME 04330
1-888-684-4464	1-888-684-4665	1-888-684-4667	1-877-866-4669	1-888-684-4666	1-888-684-4668	1-800-278-9494

WWW.MAINEVETS.ORG

I. Big picture view of Maine Veterans' Homes and the broader industry.

Maine Veterans' Homes is part of an industry that is in crisis. According to the Maine Healthcare Association, Maine has lost 29 nursing homes and 28 residential care facilities since 2014. Homes have been closing in Maine at nearly four times the national rate, according to a report published last year by the Federal Reserve Bank of Boston. And, unfortunately, there is no reason to expect this trend to slow down any time soon. The rate of reimbursement from MaineCare and private insurance remains well below the real-world cost of providing care. And this problem is exacerbated by workforce shortages that are causing Maine's nursing homes, including Maine Veterans' Homes, to become overly reliant on expensive traveling nurses and temporary contract staffing.

For Maine Veterans' Homes, as with perhaps every other nursing home and residential care facility in Maine, the result of these systemic issues is severe financial troubles that tax our ability to operate at full capacity. Since June 2022, Maine Veterans' Homes has had to draw $18.5 million from its investments just to pay its expenses and continue operations at normal levels. The Stakeholder Group convened by the Legislature years ago, and consisting of Legislators, VA officials, VSOs, public accounting firms, and administration officials, recognized that this is not sustainable and, as confirmed by the modest scope of the inefficiencies identified by OPEGA, it holds true today that this dangerous fiscal crisis can only be reversed by significant and reliable annual funding from the State of Maine.

We are, as established by statute, here to "fulfill the State's moral obligation to promote the well-being and dignity of the veterans who have served their nation, often in times of war and at great cost." *See* 37-B M.R.S. § 601. Maine Veterans' Homes takes this mission seriously, and we are good at it, widely recognized as a first-class organization providing excellent care for Maine's veterans. The Center for Medicaid Services rates our homes in Scarborough, Augusta, Machias, Caribou and South Paris five out of five stars. Likewise, three of our homes have received Gold awards and two others Bronze awards from the American Healthcare Association. And all six of our homes earned the 2025 Customer Experience Award through Activated Insights, an award that is reserved for the top 15% of 1,800 homes nationwide. Just as we embrace and excel at our mission, we hope the Legislature likewise chooses to embrace Maine Veterans' Homes and provide us with the full and long-term funding needed to care for Maine's veterans.

II. OPEGA's Approach.

As emphasized above, we appreciated OPEGA's professional and careful approach to its review of Maine Veterans' Homes. We are implementing the resulting recommendations. We do want to emphasize for anyone reading the report that, as noted in its footnote 10, OPEGA used a method called "stop and go sampling" in its review of MVH invoices in particular. While this method is an efficient way to identify potential issues and allowed OPEGA to quickly sort through large quantities of data, identify the few discrepancies and dig into them further, it is not designed to draw conclusions or extrapolations about the broader organization. A sample of 50 transactions, for example, collected using stop and go sampling, is not suitable to extrapolate conclusions about the broader universe of approximately 21,000 invoices received by MVH annually. OPEGA notes this in its report at footnote 10, and we are simply emphasizing the point here so readers will keep this fact in mind.

III. Purchasing and Accounts Payable

Much of OPEGA's report focuses on our purchasing and accounts payable system. This is understandable because we too have been focused on improving and modernizing this system for the past several years. We wanted to explain this recent history here to provide some context on our own efforts to modernize and how MVH and OPEGA are aligned.

OPEGA correctly notes that Maine Veterans' Homes has been in the process of updating its procurement systems for several years now. While we previously relied on a system of paper invoices and manual records, since 2023 we have been working to centralize and modernize our procurement and invoicing systems. OPEGA's review of these efforts has been helpful to improving this process.

As brief background, until recently MVH's procurement and accounts payable process was largely manual. Invoices, largely paper rather than electronic, were processed at each home or the Central Office depending on their type, the appropriate code being hand-written on each invoice. The home administrator or the appropriate executive at the Central Office would approve each invoice manually by signing it, after which all approved invoices would be sent to the Central Office to be manually keyed into our accounts payable system. The procurement process was decentralized and similarly manual, requiring any MVH employee placing an order to do so directly through each vendors website or, for a few of our larger accounts, through company representatives assigned to MVH.

Around 2022, Maine Veterans' Homes recognized the need to move to paperless invoicing to reduce the likelihood of errors inherent in an entirely manual system, to improve the timeliness of receiving invoices by eliminating the need to physically ship them between homes, and to aggregate more data about the purchasing habits at each facility. The idea—one that we are proving out now, with time—was that with more data and a macro view of each home's purchasing habits, we could encourage standardization in procurement across the organization and make MVH more efficient. In tandem, for the same reasons, we also recognized the need to centralize our procurement process.

As OPEGA notes, we selected Procurement Partners, a well know procurement software for healthcare organization, and launched it in 2023. Anticipating the growing pains that accompany the implementation of any new system, we also put a series of new policies and procedures in place around the use of Procurement Partners. Among these were the establishment of workflows for each individual facility defining who can order products at each facility, and who is responsible for coding and approving invoices. We also circulated guidance on how to use Procurement Partners and held in-person trainings at each facility. These efforts were accompanied by loading MVH's general ledger of accounts into Procurement Partners to make it easier to code invoices and reduce the likelihood of human error, and the creation of "punch-out" lists with multiple of our largest vendors to likewise simplify the procurement process.

The rollout of Procurement Partners did indeed come with the typical growing pains, some of which are identified as issues in OPEGA's report. This is because, even when using a centralized software, the source data still needs to be added (and often confirmed) manually. To address apparent discrepancies in the way staff at the different homes were interacting with Procurement Partners, even before we began receiving feedback from OPEGA, MVH added another layer of review to the system, adding new staff in the accounts payable department to review older invoices (where the risk of duplication is higher) and larger amounts due (where the consequences of duplication are higher), and increasing the manual review generally of invoices entered into Procurement Partners to check for errors and duplicates. We also developed reconciliation processes to catch duplicate payments before invoices were uploaded into the Abila Accounts Payable system. And we held continuous training for all facilities to make sure they were comfortable with Procurement Partners and using it in a standardized manner.

Overall, the organization has adjusted to Procurement Partners, and this system is already proving better than the previous paper-based one. Our refinements are working, evidenced (for example) by the fact that MVH itself caught and fixed the vast majority of the small number of duplicate payments made to vendors identified by OPEGA in footnote 16 of its report before OPEGA noticed them. We also want to note that, while duplicate payments should never happen, these were primarily a product of the growing pains affiliated with the new system, and are a drop in the larger bucket of the approximately 21,000 invoices MVH processes annually. There is no reason to think that any additional duplicate payments have been made by MVH since the conclusion of the time period reviewed by OPEGA.

We have also been able to ease the pressure on our accounts payable ledger through operational changes like, over time and contrary to broader industry trends, reducing our reliance on expensive contract labor. For the contract labor that we do still use (limited now to only a single facility and expected to phase out later this year there), we reconcile all statements with invoices prior to payment to ensure no duplicate payments on what are generally sizeable invoices. Instituting an "auto pay" system for some of our largest vendors has also ensured that we avoid late or duplicate payments by letting these trusted vendors draw money directly from an MVH account after providing the invoice, a process that we verify afterward. Finally, we have also began tracking accounts payable through a calendar that prioritizes payment based on invoice age and amount.

All of these efforts have resulted in a procurement and accounts payable process that is far more efficient and streamlined than it was two years ago. On top of that, our attention from OPEGA has made staff at the homes and Central Office all-the-more-focused on reviewing invoices for accuracy and eliminating duplicate payments. We look forward to improving it further by implementing OPEGA's specific recommendations.

IV. Issues Identified by OPEGA

We do not object generally to any of OPEGA's identified issues, though the issues listed under "Some expenses may not represent the best use of MVH Resources and/or appear incongruent with current cash flow issues" require more explanation. For all the others, we have provided a table below explaining what MVH is currently doing or plans to do to address each of them. As noted above, OPEGA's analysis and observations are consistent with much of our own internal efforts over the past several years which is why we are already working on improvements in many of these areas. That being said, OPEGA's detailed analysis and its discussions with our staff throughout the process have certainly been instrumental in helping us with these efforts.

OPEGA's report questions the significant late fee charges of $259,000 assessed to MVH in FY 24. We agree that MVH should never have to pay late fees but the fact that we did is a product of the current funding crisis more than anything else. For the many reasons explained above, our expenses dramatically exceed our income and so overdue invoices are unavoidable. MVH's board made the calculation that it was better to incur late fees on certain contracts than it was to further draw down our investment accounts given the opportunity cost of doing so and because it is simply prudent to retain adequate reserves for future use. We are also proud to note that we have not paid any late fees eight months into FY25, this despite the fact that MVH has to yet receive the full amount appropriated by LD 985 last year.

OPEGA also questions staff recognition expenses. While we cannot speak to every one of the line items identified by OPEGA in its report, and we do intend to implement a policy to set parameters around spending for staff, we wanted to emphasize how important staff recognition expenses are generally. Retention in the nursing home industry is famously difficult and has been for years, and staff morale took a dramatic hit industrywide as a result of the pandemic. These expenses—relatively minor in the scope of our overall budget—are a crucial management, recruitment and retention tool. That being said, we appreciate OPEGA's insights and do intend to take its recommendations to heart and are preparing a new policy to standardize and limit these costs across all of our facilities.

We have prepared the below table that explains what Maine Veterans' Homes is doing to address each of the issues identified by OPEGA. We will be happy to discuss any of this in greater detail with you or members of the Legislature.

Issues identified by OPEGA	MVH Action
Decentralized Accounts Payable Process	Some of our largest vendors are paid online. In FY 2024 these totaled \$16.7 million, nearly half of MVH's total AP for the year. We have instituted a reconciliation process to occur before these payments are made which makes the payments more accurate and timely. We are also coordinating payments through a calendar available to all AP staff which prioritizes payments for priority vendors such as food, medications and insurance.
Lack of Established Policies (Petty Cash)	A new petty cash policy is in process. This policy will distinguish between different types of petty cash, and standardize across homes the types of employees with access to petty cash, the circumstances under which it can be used, the controls around its use, and reporting of its use.
Lack of Established Policies (Store Credit Cards)	Purchase Cards will replace most store credit cards. We will implement policies and procedures to control how and when purchase cards are used. Some store credit cards may remain, also subject to policies and procedures controlling their use, because they are tied to large-scale vendors for MVH and their use results in cost savings.
System Related (Not all invoices can be processed through Procurement Partners)	Procurement Partners is updating its functionality to allow an invoice to be coded to multiple general ledger accounts. Other invoices such as invoices from entertainers and store credit cards have moved to Procurement Partners from the previous manual process.
System Related (Invoice numbers can be misread, preventing duplicates from being flagged)	The reconciliation process for large vendors noted above has helped avoid duplicate invoices with those vendors. Since the OPEGA review, staff in Purchasing, Accounts Payable, and at the homes review invoices more closely to identify potential issues such as duplicates.
System Related (Two food vendor punchouts in Procurement Partners generate simulated invoices with incorrect totals)	Accounts Payable personnel now reconcile statements with invoices from food vendors prior to making online payments to these food vendors. This helps to ensure accurate and timely payment of food invoices.
System Related (Some data—particularly long invoice numbers—experience conversion issues between Procurement Partners and Abila)	Procurement Partners is working on a system upgrade to allow the import of invoice data in a different format than is currently accepted. This new format matches the format currently utilized by MVH. Once the system upgrade is completed and tested then the import of invoice files from MVH should be much cleaner.
System Related (Procurement Partners does not reflect the purchasing limits established by the Purchasing Policy)	MVH Purchasing Manager is working with Procurement Partners to load the purchasing limits by each buyer into the system. Purchasing limits are being reviewed by leadership.
System Related (Different vendor names and records for the same vendor in Procurement Partners and Abila)	This was an issue when invoices were being manually entered into MVH's accounts payable system. Procurement Partners allows leadership to restrict which vendors are available to be seen by each home. This helps prevent the person loading the invoice from choosing

	the wrong vendor because only the correct vendor would be available to be chosen.
Existing Control Deficiencies (Invoice number controls require exact matches)	Education has been provided, and will continue to be provided, to users and approvers in Procurement Partners to check the accuracy of all invoice fields being input, including the invoice number, to prevent payment errors from occurring. A standardized convention for assigning invoice numbers to invoices without invoice numbers is being developed.
Existing Control Deficiencies (Inadequate review by managers and Home Administrators)	Similar to above, education has been provided, and will continue to be provided, to managers and Home Administrators to check the accuracy of all invoice fields being input, including the invoice number, to prevent payment errors from occurring.
Staff not Adhering to Established AP Process (using organization-wide credit cards)	The policy being developed as part of the purchase card system will include types of vendors not eligible to paid using the new purchase card system. Improved cash flow will also negate the need for Administrators to pay vendors using the organization-wide credit card.
Staff not Adhering to Established AP Process (making purchases outside of Procurement Partners and being reimbursed with petty cash)	Staff have been educated about the issues involved with this practice and have been instructed to utilize Procurement Partners for making purchases in the future.
Staff Not Adhering to Established AP Process (MVH staff at homes paying invoices directly rather than letting Central Office AP pay it when they determine it should best be paid)	This issue will diminish with improved cash flow. Also, with the implementation of purchase cards MVH may pay one-time, smaller vendors using the purchase card system for goods only. Services will not be allowed to be paid via purchase cards or petty cash.
Staff Not Adhering to Established AP Process (MVH staff sending invoices to Central Office for manual entry rather than submitting through Procurement Partners)	Improved cash flow will eliminate the need for Home Administrators to manually submit invoices in an effort to get them paid quicker. Managers and Home Administrators have been instructed to utilize Procurement Partners for the submission of invoices.
Staff Not Adhering to Established AP Process (MVH staff not submitting invoices for payment timely)	MVH is working to maximize the number of invoices sent directly to the Procurement Partners inbox so the invoices can be worked by the Purchasing department. Education has also been provided to each home about the importance of timely submission of invoices and its impact on the timely payment of those invoices.
Some Expenses May not Represent the Best Use of MVH Resources (Late fees)	MVH incurred late fees when cash flow was very tight and was limited, primarily, to two vendors including a temporary staffing agency. MVH has not paid any late fees in FY 2025.
Some Expenses May not Represent the Best Use of MVH Resources (Membership fees)	MVH pays membership fees to a national and a state long term care association. The benefits of this business expense include advocacy efforts, access to educational opportunities, shared learning with association members, and access to advertising.

Some Expenses May not Represent the Best Use of MVH Resources (Staff recognition expense)	MVH plans implement a consistent budgeted amount for staff recognition in the development of the FY 2026 budget for all homes.

V. OPEGA's recommendations.

Maine Veterans' Homes agrees with each of OPEGA's recommendations and is in the process of implementing action plans to address each recommendation. The recommendations around our accounts payable process dovetail nicely with our own efforts to improve that system, and will inform these efforts going forward. Likewise, as mentioned above, we are in the process of establishing a policy and spending limits around staff recognition expenses that will both promote these expenses as an important tool for recruitment and retention and ensure staff recognitions funds are being spent consistently across our facilities.

We hope readers do not lose sight of the bigger picture when reading OPEGA's report. Maine Veterans' Homes has done a remarkable job caring for Maine's veterans (having 1,185 residents in 2024 alone), especially in the face of dual crises in the form of the pandemic and the crisis leading to mass nursing home closures nationwide over the past 10 years. The findings of OPEGA are important, and its recommendations will be implemented, but this in no way reduces the importance of ongoing and meaningful state funding to ensure MVH can continue to provide the care Maine's veterans are entitled to.

We look forward to discussing all of this with the members of the Government Oversight Committee soon.

Sincerely,

Donald O. Lagace Jr
Brigadier General, USA Retired
Chair, Board of Trustees

Brad M. Klawitter, CEO