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OFFICE OF THE
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DEPUTY AUDITOR GENERAL

March 2, 2012

The Honorable Carl Seel, Chair
Joint Legislative Audit Committee

The Honorable Rick Murphy, Vice Chair
Joint Legislative Audit Committee

Dear Representative Seel and Senator Murphy:

Our Office has recently completed an initial followup of the Arizona Department of Veterans' Services—Veteran Home regarding the implementation status of the 7 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in July 2011 (Auditor General Report No. 11-06). As the attached grid indicates:

- 1 has been implemented;
- 2 are in the process of being implemented; and
- 4 are not yet applicable.

Our Office will conduct an 18-month followup with the Department on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:ss
Attachment

cc: Joey Strickland, Director
Arizona Department of Veterans' Services

Arizona Department of Veterans' Services—Veteran Home

Auditor General Report No. 11-06

Initial Follow-Up Report

Recommendation

Status/Additional Explanation

Finding 1: Additional steps needed to help ensure self-sufficiency of state veterans' homes

1.1 The Department should take steps to help ensure the existing Phoenix Veteran Home continues to improve its financial condition by:

- a. Finalizing and implementing policies and procedures for monitoring the Home's financial performance. These policies and procedures should include the various mechanisms that department management has used to monitor the Home's financial performance since July 2009;
- b. Increasing its goal for days cash on hand and continue to increase its days cash on hand; and
- c. Continuing to reduce the Home's administrative and general costs and assess its progress by benchmarking its administrative and general cost percentage against comparable nonprofit and government nursing homes.

Implementation in process

The Department has finalized policies and procedures for monitoring the Home's financial performance. In addition, home and department management have been holding a monthly meeting to review various financial indicators, such as projected and actual expenditures, revenues, and the Home's resident census. However, the Department has not yet experienced a full financial cycle under its new policies and procedures. Thus, auditors will follow up at 18 months to assess the Department's ongoing monitoring of the Home's financial performance.

Implemented at 6 months

Implementation in process

The Department has benchmarked the Home's administrative and general costs against a comparable nursing home. However, the Department has established very restrictive criteria for selecting benchmark facilities, thus limiting the number of facilities it is using for benchmarking purposes to only one. Although the Department has established this benchmark, in fiscal year 2011, the Home's administrative and general costs increased as a percentage of overall costs. Specifically, these costs totaled 14.7 percent of the Home's operating costs in fiscal year 2010, but increased to 18.3 percent in fiscal year 2011.

1.2 To help ensure its revenue projections for future homes are accurate, the Department should monitor the actual occupancy of the new Tucson Home opening in 2011, and if the occupancy projections turn out to be inaccurate, modify its projection methodology to reflect lessons learned from the Tucson Home.

Not yet applicable

The Tucson Home accepted its first resident on January 5, 2012, and as of January 31, 2012, had a waiting list of 183 for this 120-bed facility. According to the home administrator, the gradual process of phasing in residents is expected to take 6 months to 1 year before the home reaches its capacity. Auditors will follow up at 18 months to review the Tucson Home's occupancy, revenues, and management efforts; the Department's monitoring of the Tucson Home; and any steps the Department has taken to modify its projection methodology.

Recommendation**Status/Additional Explanation**

1.3 To help ensure the financial self-sufficiency of future homes, the Department should implement the same management practices it used to improve the Phoenix Home's financial condition, including:

a. Maintaining a balanced payer mix;

Not yet applicable

See explanation for 1.2.

b. Maintaining a high level of quality of care; and

Not yet applicable

See explanation for 1.2.

c. Keeping operating costs and administrative expenditures low.

Not yet applicable

See explanation for 1.2.
