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October 26, 2010

The Honorable Judy Burges, Chair
Joint Legislative Audit Committee

The Honorable Thayer Verschoor, Vice Chair
Joint Legislative Audit Committee

Dear Representative Burges and Senator Verschoor:

Our Office has recently completed an 18-month followup of the Department of Health Services, Division of Licensing Services—Healthcare and Child Care Facility Licensing Fees regarding the implementation status of the 7 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in January 2009 (Auditor General Report No. 09-01). As the attached grid indicates:

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

Unless otherwise directed by the Joint Legislative Audit Committee, this concludes our follow-up work on the Department of Health Services' efforts to implement the recommendations from the January 2009 performance audit report.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:sjs
Attachment

cc: Will Humble, Director
Department of Health Services

**DEPARTMENT OF HEALTH SERVICES—
Division of Licensing Services—
Healthcare and Child Care Facility Licensing Fees
Auditor General Report No. 09-01
18-Month Follow-Up Report**

Recommendation

Status/Additional Explanation

Finding 1: Licensing fees could be modified to cover more regulatory costs

1.1 The Department should develop or adopt a structured approach to evaluate its current licensing fees for healthcare and child care facilities. As part of its approach, the Department should develop a cost-based method for calculating fees that includes all direct and indirect costs. In developing this method, the Department should do the following:

- a. Assess the efficiency of its operations to ensure costs are as low as possible and document the results of its assessment. The Department should seek to minimize costs where possible.

- b. Develop fees that address factors that influence cost, including licensed capacity, the time it takes to regulate different facility types, and additional work resulting from noncompliance with licensing rules.

Implementation in Process

In the spring of 2009, the Department conducted an efficiency assessment of key work processes including licensing, compliance surveys, revenue collection, enforcement, complaints, and architectural reviews. Based on its assessment, the Department streamlined its processes and eliminated duplication of work that increased efficiency. For example, in March 2010, the Department began allowing the public to submit complaints online, which, according to the Department, saves the surveyors' time entering complaints into the complaint tracking system. Additionally, for childcare licensing, Laws 2010, Ch. 248, §3(A) requires the Department to conduct a cost study to assess the efficiency of the Department's regulation of child care facilities and group homes and submit a written report to the Governor and the Legislature by February 1, 2011. According to the Department, the study is progressing on schedule.

Implemented at 6 Months

Recommendation

Status/Additional Explanation

c. Assess the adequacy of current systems for tracking direct and indirect cost data for all of its licensing programs. The Department should enhance or develop new systems as needed and as resources are available.

Implementation in Process

The Department has streamlined and automated the data system that employees use to document their work activities for four of the Division's six licensing programs. The Department plans to expand the data system to cover the other two licensing programs by August 2011. The Department tracks indirect costs through the Arizona Financial Information System and reported that this cost information is adequate.

d. Consider the effect fee increases may have on different facilities and obtain their input in proposing new fees. If proposed fees are significantly higher than current fees, the Department might recommend increasing fees gradually.

Implemented at 18 months

1.2 Once the Department has developed its approach, it should evaluate its licensing fees for healthcare and child care facilities and propose new fees to the Legislature that would cover more, if not all, of its regulatory costs.

Implemented at 6 Months

This recommendation was implemented in a different way. Since the Legislature has passed legislation that removes the fees from statute, it is not necessary for the Department to propose fees to the Legislature (see the status for recommendation 1.3). The Department implemented new fees through exempt rulemaking on January 1, 2010.

1.3 After receiving the Department's proposal, the Legislature should consider modifying licensing fees through revising the statutory caps, authorizing the Department to set fees in rule, or establishing a mechanism in statute for determining fees.

Implemented at 6 Months

On September 4, 2009, the Governor signed HB2013, which removes licensing fees for healthcare and childcare facilities from statute and allows the Director to establish and collect fees for those facilities by administrative rule. It also creates the Health Services Licensing Fund, a 90/10 fund subject to legislative appropriation.

1.4 The Department should develop and implement policies and procedures for using the approach to periodically reassess revenues, costs, and program outcomes to update fees as needed.

Not Yet Applicable

According to the Department, it is still in the process of assessing costs of each licensing program as they relate to required program outcomes. The Department expects to conduct its first fee review in 2012.
