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STATE OF ARIZONA
OFFICE OF THE
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April 9, 2013

The Honorable Chester Crandell, Chair
Joint Legislative Audit Committee

The Honorable John Allen, Vice Chair
Joint Legislative Audit Committee

Dear Senator Crandell and Representative Allen:

Our Office has recently completed an 18-month followup of the Arizona Department of Veterans' Services—Fiduciary Program regarding the implementation status of the 22 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in June 2011 (Auditor General Report No. 11-03). As the attached grid indicates:

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

Unless otherwise directed by the Joint Legislative Audit Committee, this concludes our follow-up work on the Departments' efforts to implement the recommendations from the June 2011 performance audit report.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:ss
Attachment

cc: Robert Barnes, Interim Director
Arizona Department of Veterans' Services

**Arizona Department of Veterans' Services—
Fiduciary Program
Auditor General Report No. 11-03
18-Month Follow-Up Report**

Recommendation	Status/Additional Explanation
Finding 1: Department should consider two options for fiduciary program—gradually phasing out program or increasing fees	
<p>1.1 The Department should consider phasing out its fiduciary services program. If it decides to do so, it should:</p> <ul style="list-style-type: none"> a. Not accept any new clients; b. Identify possible successor appointees for its existing clients; and c. Begin the process of submitting resignations to the courts. 	<p>Not applicable After considering this option, the Department reported that it decided to continue its fiduciary program.</p>
<p>1.2 If the Department decides to retain its fiduciary services program, it should consider revising its fees to more fully cover its program costs.</p>	<p>Implemented at 18 months</p>
<p>1.3 If the Department decides to revise its fiduciary services program fees, it should develop or adopt a structured approach for evaluating these fees. 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:</p> <ul style="list-style-type: none"> 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 the types and amounts of services provided and the time it takes to provide those services. 	<p>Implemented at 18 months</p> <p>Implemented at 18 months</p> <p>Implemented at 18 months</p>

Recommendation	Status/Additional Explanation
<p>c. Assess the adequacy of current systems for tracking the costs associated with each client. It should also track the time that its fiduciary staff spend on providing fiduciary services, including both direct and indirect time. The Department may need to enhance its systems and processes for capturing its costs, both direct and indirect, for providing fiduciary services.</p> <p>d. Consider the effect of fee changes on its clients, particularly clients who may not be able to pay higher fees. If proposed fees are significantly higher, the Department might recommend increasing fees gradually.</p> <p>e. Consider and incorporate any changes resulting from statutory changes and the Arizona Supreme Court’s review of fiduciary fees.</p>	<p>Implemented at 18 months</p> <p>Implemented at 18 months</p> <p>Implemented at 18 months</p>
<p>1.4 Once the Department has developed its approach, it should evaluate its fiduciary fees, propose new fees, and revise the fiduciary fees for which it has authority to revise. For conservatorship fees, if necessary, it should consider proposing new fees to the Legislature that would more fully cover the costs of providing conservatorship services.</p>	<p>Implemented at 18 months</p>
<p>1.5 After receiving the Department’s proposal, the Legislature should consider modifying conservator fees through revising the statutory caps or authorizing the Department to set fees in rule.</p>	<p>Implemented at 18 months In the 2012 legislative session, the Legislature considered Senate Bill 1292, which would have modified statutory caps on conservator fees. However, this bill was not passed. As of March 2013, legislation modifying conservator fees had not been proposed during the 2013 legislative session.</p>
<p>1.6 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.</p>	<p>Implementation in process According to an internal department memo, the Department intends to incorporate a reassessment and update of fees into its annual budget process, and the Department has created a template for doing so. However, the Department has not yet created policies and procedures for this process.</p>

Recommendation	Status/Additional Explanation
<p>Finding 2: To ensure that the Department has an effective control environment to perform key fiduciary functions and monitor its fiduciary appointments, the Department should:</p>	
<p>2.1 Ensure inventory records are complete by:</p> <ul style="list-style-type: none"> a. Determining fair market value for all client assets, including property such as investment assets and real estate; b. Updating its case management database to reflect all assets and associated fair market values; and c. Ensuring that staff are trained to use the instructions in the procedure manual for periodically reviewing and updating the fair market value of client assets. 	<p>Implemented at 18 months</p> <p>Implemented at 18 months</p> <p>Implemented at 18 months</p>
<p>2.2 Improve the suitability of client records and documentation by:</p> <ul style="list-style-type: none"> a. Ensuring that staff are trained to use the instructions in the procedure manual; and b. Developing and implementing supervisory review processes to prevent, detect, and correct documentation problems. 	<p>Implemented at 18 months</p> <p>Implementation in process The Department has established some supervisory review processes to prevent documentation problems, but it has not developed policies and procedures to guide these processes. According to the Department, it is in the process of updating its policies and procedures to more clearly outline these processes.</p>
<p>2.3 Ensure the accuracy of court reports by:</p> <ul style="list-style-type: none"> a. Updating its procedure manual to include instructions for developing reports and training staff on these updated procedures; and b. Developing and implementing supervisory review processes to prevent, detect, and correct accuracy problems. 	<p>Not implemented The Department has not yet updated its procedure manual to include instructions for developing court reports.</p> <p>Implemented at 6 months</p>
<p>2.4 Ensure timely court and VA filings and timely monitor deceased wards' cases by:</p> <ul style="list-style-type: none"> a. Updating its procedure manual to reflect the new deadline tracking system; and b. Training staff on procedures for timely administering deceased wards estates. 	<p>Implemented at 6 months</p> <p>Implemented at 18 months</p>

Recommendation	Status/Additional Explanation
2.5 Improve bank reconciliation procedures by: <ul style="list-style-type: none"><li data-bbox="240 268 779 394">a. Developing a bank reconciliation procedure and instructions for reconciliation and training staff on these updated procedures; and<li data-bbox="240 426 779 510">b. Segregating reconciliation duties by requiring supervisory review by staff that did not perform the reconciliation.	<p data-bbox="844 268 1182 300">Implemented at 18 months</p> <p data-bbox="844 426 1182 457">Implemented at 18 months</p> <hr data-bbox="142 531 1550 535"/>