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May 8, 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—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:

- 4 have been implemented, and
- 3 are in the process of being implemented.

Unless otherwise directed by the Joint Legislative Audit Committee, this concludes our follow-up work on the Department's efforts to implement the recommendations from the July 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—Veteran Home

## Auditor General Report No. 11-06

### 18-Month Follow-Up Report

Recommendation	Status/Additional Explanation
<b>Finding 1: Additional steps needed to help ensure self-sufficiency of state veterans' homes</b>	
<p>1.1 The Department should take steps to help ensure the existing Phoenix Veteran Home continues to improve its financial condition by:</p> <ul style="list-style-type: none"> <li>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;</li> <li>b. Increasing its goal for days cash on hand and continue to increase its days cash on hand; and</li> <li>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.</li> </ul>	<p><b>Implemented at 18 months</b></p> <p><b>Implemented at 6 months</b></p> <p><b>Implementation in process</b>            The Department has implemented benchmarking for the Phoenix Veteran Home. However, it has established very restrictive criteria for selecting benchmark facilities, thus limiting the number of facilities it is using for benchmarking purposes to only one.</p> <p>In fiscal year 2012, the Department reduced its administrative and general costs as a percentage of overall costs when compared to fiscal year 2011, although the percentage was still higher than in fiscal year 2010. Specifically, these costs totaled 14.7 percent of the Home's operating costs in fiscal year 2010, increased to 18.3 percent in fiscal year 2011, and decreased to 16.1 percent in fiscal year 2012.</p>
<p>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.</p>	<p><b>Implementation in process</b>            Although the Department has been monitoring Tucson Home occupancy, only three of the Tucson Home's four residential buildings have been opened. The Department projects that the remaining building will open by July 2013. As of March 27, 2013, the Tucson Home had filled 57 of its 120 beds and the Department had a list of 213 people who had expressed interest in admission to the facility.</p>
<p>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:</p> <ul style="list-style-type: none"> <li>a. Maintaining a balanced payer mix;</li> <li>b. Maintaining a high level of quality of care; and</li> </ul>	<p><b>Implemented at 18 months</b></p> <p><b>Implemented at 18 months</b></p>

**Recommendation****Status/Additional Explanation**

- c. Keeping operating costs and administrative expenditures low.

**Implementation in process**

The Tucson Home is not yet fully operating, and the Department has not yet identified benchmarks for comparing its operating costs and administrative expenditures. However, the Department is monitoring the Tucson Home's operating costs in the same manner it monitors the Phoenix Home's costs.

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