

JANICE K. BREWER
GOVERNOR



JOEY STRICKLAND
DIRECTOR

Arizona Department of
Veterans' Services
3839 North 3RD Street, Suite 209
Phoenix, Arizona 85012
Phone (602) 255-3373 Fax (602) 255-1038

June 11, 2011

Debra K. Davenport, CPA
Auditor General
State of Arizona Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Re: Final Response to the Performance Audit of the Arizona Department of Veterans' Services
Arizona State Veteran Home, Office of the Auditor General, on May 31, 2011.

Dear Ms. Davenport:

On behalf of The Arizona Department of Veterans' Services, we appreciate your recognition of our efforts and continued progress to improve the financial stability and quality of care regarding our residents and Veteran Home.

I have reviewed the Auditor General's Audit Report of the Arizona Department of Veterans' Services State Veteran Home. Enclosed are the 3 pages of the Department's written comments on the report.

Sincerely,

Joey Strickland
Director

FINDING 1

1.1 The Department should take steps to ensure the existing Phoenix Veteran Home maintains its improved 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 Veteran Home's financial performance since July 2009.**

RECOMMENDATION 1.a

ADVS Response:

The finding of the Auditor General is agreed to and the recommendation will be implemented.

- b. Increasing the goal for days cash on hand and continue to increase cash on hand**

RECOMMENDATION 1.b

ADVS Response:

The finding of the Auditor General is agreed to and the recommendation will be implemented.

Comments:

Increasing the number of days of cash on hand from 43 days to 60 days would be considered sufficient for a nursing home (performance data was based on acute care hospital type environments). Based on calculations used by the Auditor General's Office, this would bring the Home's reserve from \$1.8 million to \$2.5 million.

Note: Agency staff has vigilantly maintained oversight of revenues and operating expenditures resulting in an increase of the number of day's cash on hand to an average of 68 days in the last three months.

c. Continuing to reduce the Veteran Home's administrative and general costs and assess its progress by benchmarking the administrative and general cost percentage against comparable nonprofit and for-profit nursing homes.

RECOMMENDATION 1.c

ADVS Response:

The finding of the Auditor General is agreed to with the exception of for-profit care institution comparisons p.11, footnote 2.

Comments:

Comparing the administrative and general cost of the Arizona State Veteran Home against not-for-profits and government entities is appropriate. The comparison of Arizona State Veteran Home's administrative and general cost to for-profit care institutions is not appropriate. The Arizona State Veteran Home must provide state mandated benefits such as retirement and health insurance, amongst others. For-profit care institutions do not offer the level of benefits that are offered to state employees. The suggested comparison of the Arizona State Home against for-profit care institutions is not realistic nor does the Home have the ability to control these mandated employee benefits and their costs. These costs will exceed the for-profit care sector.

While increasing cash on hand, the agency has also invested nearly \$400,000 in capital improvement and equipment, most significantly the much needed replacement of the chiller system.

The agency will continue to refine these processes and meanwhile benchmark itself against comparable non-profit and government entities through utilization of the Nursing Care Institution Uniform Accounting Report, specifically the Administrative and General costs.

- 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.**

RECOMMENDATION 1.2

ADVS Response:

The finding of the Auditor General is agreed to and will be implemented.

- 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, includes:**
- a. Maintaining a balanced payer mix**
 - b. Maintaining a high level of quality care; and**
 - c. Keeping operating costs and administrative expenditures low.**

RECOMMENDATION 1.3

ADVS Response:

The finding of the Auditor General is agreed to and will be implemented.

Comments: During the period in which the Sunset audit was conducted, the Home's financial condition has continued to improve. The Home has maintained a constant flow of admissions and continued to improve its balance of payer mix. At the close of April the Home's Medicaid census was 56%, of which the optimal mix is 60% or less. The VA service-connected days have also increased to an average of 22% of our resident mix during the first three quarters of the fiscal year.

Throughout the fiscal year we have continued to maintain a balance between staffing and census. The average staffing hours per resident day for the last 25 pay cycles has been 3.16 hours, slightly lower than our goal of 3.2 hours but still well above the VA requirement of no less than 2.5 hours.