

# Arizona Department of Veterans' Services State Veterans' Homes

Department operates State Veterans' Homes, reported implementing emergency actions to respond to COVID-19 pandemic, and took action to correct licensing, health, safety, and infection-control deficiencies, but preferences are shifting to home-based care

Performance Audit

April 2021  
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A Report to the Arizona Legislature

Lindsey A. Perry  
Auditor General





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April 12, 2021

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Colonel Wanda A. Wright, Director  
Arizona Department of Veterans' Services

Transmitted herewith is the Auditor General's report, *A Performance Audit of the Arizona Department of Veterans' Services—State Veterans' Homes*. This report is in response to a September 19, 2018, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights to provide a quick summary for your convenience.

The Arizona Department of Veterans' Services has provided a brief response to the report.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Lindsey A. Perry, CPA, CFE  
Auditor General

## Arizona Department of Veterans' Services State Veterans' Homes

Department operates State Veterans' Homes, reported implementing emergency actions to respond to COVID-19 pandemic, and took action to correct licensing, health, safety, and infection-control deficiencies, but preferences are shifting to home-based care

### Audit purpose

To provide information about the Department's State Veterans' Homes (Homes), Arizona veterans' long-term care options, and shifting preferences and funding for long-term care services; the processes and requirements for constructing veterans' long-term care facilities; and the Phoenix and Tucson Homes' compliance with State licensing and federal certification requirements and standards and quality-of-care ratings from 2017 through 2020.

### Key findings

- To provide long-term skilled nursing care to eligible Arizona veterans and their spouses, the Department operates a 200-bed Home in Phoenix, a 120-bed Home in Tucson, and is constructing 2 new 80-bed Homes in Flagstaff and Yuma, which it expects will begin admitting residents in fiscal year 2022.
- The Department reported implementing screening requirements, restricting visitor access, routinely testing the Homes' staff, and vaccinating residents and staff at the Phoenix and Tucson Homes to address the COVID-19 pandemic.
  - Infection rates and deaths—According to federal data, as of March 14, 2021, the Homes reported 70 residents and 97 staff with confirmed COVID-19 cases and 16 resident deaths.
  - Resident vaccination rates—As of March 26, 2021, 79 of 103 Phoenix Home residents and 80 of 87 Tucson Home residents had received 1 or both COVID-19 vaccine doses.
  - Staff vaccination rates—As of March 26, 2021, 90 of 153 Phoenix Home staff and 100 of 153 Tucson Home staff had received 1 or both COVID-19 vaccine doses.
- The Homes must be financially self-sustaining and during fiscal year 2020, their revenues and expenditures totaled approximately \$40.4 million and nearly \$37.4 million, respectively. The Department plans to use the Homes' Trust Fund's \$30.3 million balance to pay for the new Flagstaff and Yuma Homes' initial operating costs.
- The U.S. Department of Veterans Affairs (VA) provides grant funding to eligible states to pay for up to 65 percent of the construction costs to build or renovate state veterans' homes. The State must commit funding for the remaining 35 percent of construction costs. The State has considered adding more Homes and additional long-term care options are available to Arizona veterans. Finally, Arizona's veteran population is projected to decline, and individuals' long-term care preferences and VA and CMS funding are shifting to home- and community-based services, which might impact veterans' demand for institutional long-term care in Arizona.
- The Phoenix and Tucson Homes were cited by federal regulators for health, safety, and quality-of-care deficiencies between 2017 and 2019 and took required corrective action. The Phoenix Home was cited for more CMS health deficiencies and the Tucson Home was cited for fewer CMS health deficiencies than State and national averages.

### Key recommendations

There were no recommendations for this report.



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The Arizona Auditor General has released the second in a series of 3 performance audit reports of the Arizona Department of Veterans' Services (Department). The first report (Report 20-104) addressed the Department's administration of the Military Family Relief Fund financial assistance program. A final report will provide responses to the statutory sunset factors. This report addresses:

- The State's consideration of building additional State Veterans' Homes (Homes), various long-term care options available to Arizona veterans, and preferences for long-term care options.
- The various processes and requirements for approving funding and construction of veterans' long-term care facilities.
- The Phoenix and Tucson Homes' compliance with State licensing and federal certification requirements and standards, quality-of-care ratings, and required corrective actions from 2017 through 2020.

## Department operates skilled nursing facilities to care for veterans

Arizona Revised Statutes (A.R.S.) §41-603 authorizes the Department to acquire property for, construct, and operate financially self-sustaining Homes. These Homes provide long-term skilled nursing care to eligible honorably discharged veterans, their spouses, and parents of service members who died while serving in the U.S. Armed Forces. As shown in Figure 1 on page 2, as of March 2021, the Department operated 2 Homes—1 each in Phoenix and Tucson—and was in the process of building 2 new Homes—1 each in Flagstaff and Yuma.<sup>1</sup>

The Homes provide a variety of services, therapies, and activities for their residents (see textbox for information about the services provided). For example, both the Phoenix and Tucson Homes have secured memory care units for residents with Alzheimer's or dementia.

Admission to the Homes is available to eligible individuals who require skilled nursing care as determined by a physician, are free of tuberculosis, and whose needs can be met by the Homes. The Homes admit eligible individuals after review and approval of a completed admissions application, financial information statement, physician's assessment, and U.S. Department of Veterans Affairs (VA) information.

### Homes' services

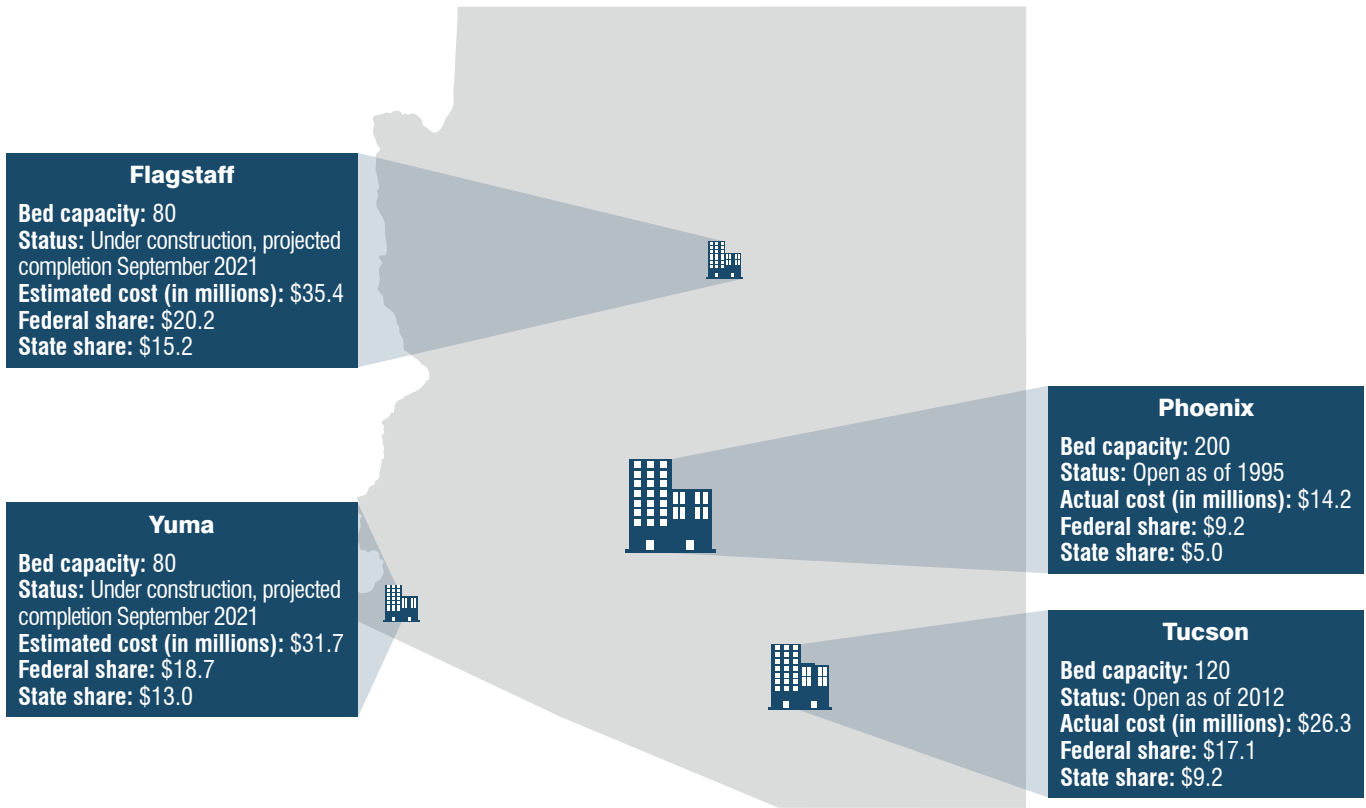
- **Skilled nursing**—Care or treatment provided by licensed nurses, such as administering medicine and inserting and removing catheters.
- **Physical therapy**—Assisting residents to improve their physical function.
- **Occupational therapy**—Assisting residents to restore their activities of daily living, such as getting dressed.
- **Speech therapy**—Providing training to residents to overcome swallowing disabilities or loss of spoken language.
- **Recreational therapy**—Enhancing the functioning, independence, and well-being of residents through activities such as faith-based outings, bingo, and board games.
- **Secured memory care**—Providing care to residents with Alzheimer's and dementia.
- **Social services**—Providing psycho-social support and discharge planning for residents and their families.
- **Respite**—Providing short-term care and supervision of a resident.
- **Hospice**—Providing care and support for terminally ill residents, their family members, and/or caregivers.

Sources: Auditor General staff review of the Arizona Health Care Cost Containment System (AHCCCS) medical policy manuals and Department website.

<sup>1</sup> See Chapter 1, page 8, for additional information about the State's efforts and plans to build additional Homes, including a proposed Home in Mohave County and plans to renovate or replace the Phoenix Home.

# Figure 1

## Arizona Homes' status, bed capacity, and State and federal actual and projected construction costs<sup>1</sup> As of March 2021



<sup>1</sup> The actual and estimated costs are for construction only and do not include initial Home start-up costs such as staff or food for residents. Source: Auditor General staff review of the Department's website, strategic planning documents, and Homes' construction documents.

Between fiscal years 2018 and 2020, the Phoenix Home's occupancy rate averaged 80 percent and the Tucson Home's occupancy rate averaged 97 percent. However, both Homes' occupancy rates have declined during the COVID-19 pandemic. As shown in Table 1, as of January 2021, the Phoenix Home's occupancy rate was 52 percent and the Tucson Home's occupancy rate was 68 percent. According to the Department, the Phoenix and Tucson Homes froze admissions beginning March 13, 2020, in response to the COVID-19 pandemic. Additionally, as of January 2021, the majority of the Homes' residents were men 65 years of age or older. Each Home also serves women residents. The majority of the Homes' residents were admitted to the Homes after receiving care in a hospital, such as the Phoenix and Tucson VA medical centers. According to the Department, the Phoenix Home resumed admitting new residents in March 2021 and the Tucson Home anticipates admitting new residents beginning in April 2021.

**Table 1**  
**Phoenix and Tucson Homes' resident demographics**  
As of January 2021<sup>1</sup>

	Phoenix Home	Tucson Home
<b>Filled beds</b>	52%	68%
<b>Gender</b>		
Female	6	5
Male	94	95
<b>Age</b>		
25 to 54 years	0	1
55 to 64 years	7	5
65 to 74 years	39	33
Over 75 years	54	61

<sup>1</sup> The number of Home residents presented in Tables 1, 2, and 3 (see pages 3 and 5) differ because of timing and the number of residents discharged from the Home at the time the data was collected and reported.

Source: Auditor General staff review of Department-provided information.



## Homes must be licensed and certified to operate in Arizona and receive VA, Medicare, and Medicaid resident care payments

The Homes are licensed by the Arizona Department of Health Services (ADHS) and recognized and certified by the VA and federal Centers for Medicare and Medicaid Services (CMS).<sup>2</sup> To obtain licensure, recognition, and certification, the Homes must submit an application to each of these entities and undergo separate initial on-site ADHS, VA, and CMS surveys. These on-site surveys include a physical inspection; review of the Home's policies, procedures, and processes for operating and caring for residents; review of projected staffing patterns; and review of other nursing home requirements and standards. At the time of ADHS' initial survey, a Home must be ready to open but have not yet accepted any residents. In contrast, at the time of the VA's and CMS' initial surveys, the Home must be operating and serve enough residents for the surveyors to assess that the Home is in compliance with State and federal requirements and standards to operate and to be eligible to receive resident care payments.

If deficiencies are identified during an initial licensure or certification survey, the Home must prepare and implement an approved corrective action plan.<sup>3</sup> Depending on the nature and severity of the deficiencies identified, ADHS and CMS may conduct follow-up visits to determine if the deficiencies have been corrected. After obtaining initial licensure, recognition, and certification, the Homes must also undergo annual ADHS, VA, and CMS surveys to help ensure that they continue to comply with requirements and standards. See Chapter 3 (pages 16 through 18) for information about the Phoenix and Tucson Homes' performance on their annual ADHS, VA, and CMS surveys and quality-of-care ratings from 2017 through 2019.

## Department has responded to COVID-19 pandemic at Phoenix and Tucson Homes

According to federal data, as of March 14, 2021, the Department's 2 Homes reported 70 residents and 97 staff with confirmed COVID-19 cases and 16 resident deaths (see Table 2).

**Table 2**  
**COVID-19 status of Homes' residents and staff**  
**January 1, 2020 through March 14, 2021<sup>1</sup>**

Status	Phoenix Home	Tucson Home
<b>Total number of occupied resident beds</b>	<b>102</b>	<b>79</b>
Residents with laboratory-positive COVID-19	35	35
Residents with suspected COVID-19	33	0
Resident with suspected/laboratory-positive COVID-19 who died in the facility/another location	7	9
Staff and facility personnel with laboratory-positive COVID-19	53	44
Staff and facility personnel with suspected COVID-19 who are being managed as though they are positive	24	1
Staff and facility personnel with suspected or laboratory-positive COVID-19 who died	0	0

<sup>1</sup> According to CMS, facilities are required to report COVID-19-related statistics on a weekly basis. Facilities may opt to report cumulative data retrospectively back to January 1, 2020. Therefore, some facilities may be reporting higher numbers of cases/deaths compared to other facilities.

Source: Auditor General staff review of information obtained from the Centers for Medicare and Medicaid Services COVID-19 Nursing Home Dataset retrieved March 26, 2021, from <https://data.CMS.gov>.







<sup>2</sup> All nursing care facilities must be licensed to operate in the State. However, only those facilities that want to receive VA payments for the care of eligible veterans must be VA certified, and only those facilities that want to participate in Medicare and/or Medicaid to receive payments for their residents (veteran or otherwise) must be CMS-certified.

<sup>3</sup> A corrective action plan is not required for a failed VA recognition survey because the survey is pass or fail only. For a failed inspection, a state veteran home can take the time needed to reach full compliance and request a new VA recognition survey.

In response to State and federal public health emergency declarations, executive orders, and guidance, the Department reported it implemented the following emergency actions at the Homes to address the COVID-19 pandemic and mitigate the risks to facility staff and residents, including:

- In March 2020, it canceled recreational outings and independent travel from the Homes, restricted visitor access and in-person visitation, and set up remote communications for residents and their families, including virtual and window visits. For example, the Tucson Home established weekly schedules for virtual and window visits and notified families about these visitation options. Although the Phoenix Home reinstated recreational outings and outdoor in-person visits for residents and their families and friends on September 28, 2020, and the Tucson Home reinstated outdoor in-person visits on October 5, 2020, these activities were canceled less than a month later because of the increased risk of COVID-19 in their respective communities. Outdoor in-person visitation at the Phoenix Home was reinstated as of March 2021, and the Department reported that indoor, in-person visitation at both the Phoenix and Tucson Homes had resumed as of March 2021.
- In March 2020, it implemented screening requirements for anyone who entered the Homes, including taking temperatures, washing hands, and answering screening questions, which continued as of March 2021. It also began taking steps to secure personal protective equipment and educate the Homes' staff on the proper use of personal protective equipment and mitigating the spread of COVID-19. The Department reported working with the community, stakeholders, and local businesses to obtain masks and hand sanitizer.
- In April 2020, it activated a COVID-19 quarantine unit at each of the Homes and adopted a 14-day quarantine period for residents who had possible exposure to COVID-19 or tested positive for COVID-19, which continued as of March 2021.
- From April 2020 through January 2021, it paid for hotel rooms for the Homes' staff to use while they were between work shifts in an effort to socially distance them from their families and the Homes' residents to mitigate the spread of COVID-19.
- In August 2020, consistent with federal regulation and CMS guidance, it mandated weekly COVID-19 routine testing for all the Homes' staff. This testing increased to twice weekly beginning on November 30, 2020, and was still occurring in February 2021.
- In December 2020, the Homes started providing the Moderna COVID-19 vaccine to residents and staff through CVS Caremark COVID-19 clinics held at the Homes. The CDC's recommended COVID-19 vaccine protocol for the Moderna vaccine consists of 2 doses of vaccine administered 28 days apart. Vaccination clinics were also held at the Homes in January and February 2021. As shown in Table 3 on page 5, as of March 26, 2021, 79 of 103 Phoenix Home residents and 80 of 87 Tucson Home residents had received either 1 or both vaccine doses. Additionally, 90 of 153 Phoenix Home staff and 100 of 153 Tucson Home staff had received either 1 or both vaccine doses. The Department reported that some residents and staff had not received their vaccine doses as of March 26, 2021, because of scheduling conflicts, hospitalizations, inability to receive the vaccine because of a compromised immune system, and refusal to be vaccinated.

**Table 3**  
**Vaccination status of the Homes' residents and staff**  
**As of March 26, 2021**

	Phoenix Home	Tucson Home
<b>Number of residents</b>	<b>103</b>	<b>87</b>
 Received initial vaccine dose only	2	1
 Received both vaccine doses	77	79
 Did not receive vaccine	24	7
<b>Number of staff</b>	<b>153</b>	<b>153</b>
 Received initial vaccine dose only	1	1
 Received both vaccine doses	89	99
 Did not receive vaccine	63	53

Source: Department-reported information.

## Homes' revenues and expenditures have increased during fiscal years 2018 through 2020

Statute requires the Department to operate financially self-sustaining Homes and the Legislature annually appropriates monies to the Department from the State Homes for Veterans Trust Fund (Trust Fund) to operate the Homes. As shown in Table 4 (page 7), during fiscal year 2020, the Homes' revenues totaled approximately \$40.4 million, expenditures totaled nearly \$37.4 million, and the Trust Fund's ending balance was more than \$30.3 million. Specifically:

A.R.S. §41-608.01 established the Trust Fund for the sole purpose of operating and maintaining State-operated nursing and assisted living homes for Arizona veterans. Charges and fees for resident services are deposited in the Trust Fund and are appropriated annually to pay for the Homes' operations.

- Majority of Homes' revenues received from resident services payments from 4 payer sources—** The Homes' 4 payer sources for resident services are the VA, Medicare, Medicaid, and private pay, with the VA being the primary payer. Specifically, in fiscal year 2020, the VA paid for approximately 80 percent of residents' care costs at the Phoenix Home and 85 percent at the Tucson Home. The duration and types of services covered, payment amounts, and eligibility criteria vary between payer sources. For example, the VA and Medicaid will continue paying for a veteran's care at the Homes as long as the veteran continues to meet eligibility requirements, but Medicare will pay for only up to 100 days of care per admission. The Homes must maintain their respective certification statuses to receive VA, Medicare, or Medicaid payments for resident care. See Appendix A, pages a-1 through a-3, for additional information on the payer sources and amounts for fiscal years 2019 and 2020.
- Majority of Homes' expenditures were for staffing, including contract nurses and overtime—** In fiscal year 2020, 57 percent of the Homes' \$37.4 million in expenditures were for salaries and employee-related expenses for the Homes' 381 full-time equivalent staff. In addition, 20 percent of the Home's expenditures, or approximately \$7.5 million, was spent on professional and outside services, including contracted nurses.<sup>4</sup> The expenditures for salary and employee-related expenses and professional and outside services included approximately \$4.5 million, or 12 percent of the Homes' expenditures, for contracted nurses and Department-employed nurse overtime in fiscal year 2020 as a result of staff vacancies and staff absences from work.

The Department has expressed a desire to decrease the use of contracted nurses and overtime to reduce the Homes' operating costs. For example, in fiscal year 2020, the hourly base rate for a registered nurse

<sup>4</sup> In fiscal year 2021, the Department will need to start recruiting and hiring an additional 254 FTE to staff the new Flagstaff and Yuma Homes.

employed by the Homes, including State employee health and retirement benefits, was \$44.36. In contrast, under the State-wide managed services provider contract used by the Department, which includes temporary nursing staff services, a contracted registered nurse's rate could cost the Department up to \$78.30 per hour.<sup>5</sup> Further, nursing staff who work overtime are typically compensated at time-and-a-half. To improve recruitment and retention of Homes' staff and decrease its use of contracted nurses, during the audit, the Department submitted a budget request to implement a hiring incentive program in fiscal year 2022 for all nursing, housekeeping, and dietary positions.

- Trust Fund's fund balance increased from \$11 million to \$30.3 million between fiscal years 2014 and 2020, which Department plans to use to operate its 4 Homes**—Since fiscal year 2014, the combined annual revenues from the Phoenix and Tucson Homes have consistently exceeded expenditures, ranging from \$2.1 million to \$5.1 million in excess revenues annually, because resident services charges exceeded annual appropriations for operating the Homes. The Trust Fund's fund balance at the end of fiscal year 2020 was approximately \$30.3 million.

The Department anticipates that the excess revenues generated by the existing Homes will continue and thus offset its planned use of Trust Fund monies to pay for the Flagstaff and Yuma Homes' initial operating costs. Specifically, the Department anticipates using monies from the Trust Fund to pay for the Flagstaff and Yuma Homes' initial operating costs until the Homes are eligible for federal resident care payments from the VA and CMS. For example, as shown in the textbox, in addition to its annual Trust Fund appropriation to operate the Phoenix and Tucson Homes, the Department was appropriated \$3.5 million from the Trust Fund for fiscal year 2021 to begin staffing the 2 new Homes in Flagstaff and Yuma and preparing the Homes to admit residents. The Department expects construction on these Homes will be completed in September 2021, and the Homes will be ready to admit residents in fiscal year 2022. Additionally, the Department's fiscal year 2022 budget request included a \$9.6 million appropriation request from the Trust Fund for the new Homes' operations and a \$1 million appropriation request for needed repairs to its existing Homes (see Chapter 1, page 8, for additional information). Finally, for fiscal year 2023, the Department reported it plans to request \$22.8 million from the Trust Fund to operate the 2 new Homes in addition to the appropriation it will request to operate the 2 existing Homes. The Department projects that the new Homes will be financially self-sustaining when they each reach an 80 percent census, which it expects to occur by the end of the Homes' first year in operation, sometime in fiscal year 2023.

**Department's Trust Fund appropriation requests to pay for initial and ongoing operational costs of Flagstaff and Yuma Homes**

Fiscal year	Amount (in millions)
2021	\$ 3.5
2022	9.6
2023	22.8
<b>Total</b>	<b>\$35.9</b>

Source: Department's fiscal year 2022 budget submission.

<sup>5</sup> The State-wide managed services contract used by the Department to hire contract nurses allows the vendor to charge up to \$50.80 per hour base pay for a registered nurse and add a markup of up to 54.15 percent above the base pay. According to the contract proposal, higher markups entice more employing vendors to join the contractor's network.

**Table 4****State Homes for Veterans Trust Fund revenues, expenditures, and changes in fund balance<sup>1</sup>  
Fiscal years 2018 through 2020**

(Unaudited)

	2018	2019	2020
<b>Revenues</b>			
Charges for resident services <sup>2</sup>	\$37,165,532	\$38,853,921	\$38,433,281
Coronavirus Aid, Relief, and Economic Security (CARES) Act <sup>3</sup>			1,674,076
Interest income	198,054	415,185	285,673
Other <sup>4</sup>	44,788	56,218	52,760
<b>Total revenues</b>	<b>37,408,374</b>	<b>39,325,324</b>	<b>40,445,790</b>
<b>Expenditures</b>			
Payroll and related benefits	19,370,683	21,729,631	21,168,500
Professional and outside services <sup>5</sup>	6,421,422	7,878,907	7,495,072
Travel <sup>6</sup>	30,987	40,641	135,492
Food and related	2,187,897	2,387,749	2,143,852
Other operating <sup>7</sup>	3,852,946	4,455,518	4,819,274
Buildings, building improvements, and equipment <sup>8</sup>	457,478	408,171	1,596,983
<b>Total expenditures</b>	<b>32,321,413</b>	<b>36,900,617</b>	<b>37,359,173</b>
Net change in fund balance	5,086,961	2,424,707	3,086,617
Fund balance, beginning of year	19,739,867	24,826,828	27,251,535
<b>Fund balance, end of year</b>	<b>\$24,826,828</b>	<b>\$27,251,535</b>	<b>\$30,338,152</b>

<sup>1</sup> The table includes only Trust Fund revenues and expenditures. It does not include other monies the Department expended for the construction of the Flagstaff and Yuma homes (see footnotes 5 and 8 for additional information) and other monies paid to operate the Homes. For example, in fiscal year 2020, the Department expended approximately \$6,400 from the Veterans' Donations Fund to operate the Phoenix Home. Monies deposited in the Veterans' Donations Fund come primarily from specialty license plate purchases and donations and are used for the benefit of veterans.

<sup>2</sup> Charges for resident services are fees and reimbursements received from residents, the VA, Medicaid, Medicare, and private insurance carriers for resident services.

<sup>3</sup> Coronavirus Aid, Relief, and Economic Security (CARES) Act revenues received in fiscal year 2020 were monies the Home received to substitute for revenues lost from the COVID-19 pandemic when the 90 percent occupancy rate requirement to receive federal benefits was waived to allow for social distancing. According to the Department, it has yet to spend these monies because it has not received appropriation authority to do so.

<sup>4</sup> Other revenues comprise various revenues, such as gift shop receipts.

<sup>5</sup> Professional and outside services comprise various expenditures for services, such as pharmaceutical, temporary nursing and other staffing, and rehabilitation therapy services. In addition to these expenditures from the Trust Fund, in fiscal year 2020, the Department spent nearly \$700,000 from its State General Fund appropriation and approximately \$1.3 million from a federal grant for engineering and architectural services for the construction of the Flagstaff and Yuma Homes.

<sup>6</sup> Travel expenditures increased in fiscal year 2020 as a result of the Department's efforts to mitigate the spread of COVID-19. The Department paid for hotel rooms for Homes' staff to use while they were between work shifts in an effort to socially distance from their families and the Homes' residents.

<sup>7</sup> Other operating expenditures comprise various expenditures including medicine, medical supplies, and utilities.

<sup>8</sup> Buildings, building improvements, and equipment expenditures in fiscal year 2020 were primarily for the State's share of the Flagstaff and Yuma Homes' construction costs. Specifically, the Department expended nearly \$1.5 million from the Trust Fund for the construction of these homes. In addition to these expenditures from the Trust Fund, in fiscal year 2020, the Department spent approximately \$7.4 million from its State General Fund appropriation, \$619,000 from the Veterans' Donations Fund, and approximately \$12.3 million from a federal grant for the construction of the Flagstaff and Yuma Homes.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File* for fiscal years 2018 through 2020, and the State of Arizona *Annual Financial Report* for fiscal years 2018 through 2020.



## State has considered adding more Homes, various long-term care options are available to Arizona veterans, and preferences and funding are shifting to home- and community-based services

### Department and State Legislature have considered expanding beyond Arizona's 4 existing Homes

In addition to the Homes the Department operates in Phoenix and Tucson and is constructing in Flagstaff and Yuma, the Department has taken steps to plan for the future of the Phoenix Home, and the State has considered constructing 2 additional Homes. Specifically:

- **Department considered renovating or replacing the Phoenix Home**—As of September 2020, the Department had spent approximately \$114,000 on studies examining the possibility of renovating or replacing the 200-bed Phoenix Home. Specifically, in fiscal year 2017, the Department spent approximately \$96,000 on a feasibility study that assessed renovating the Home or replacing the Home with 2 new 100-bed Homes in the Phoenix metropolitan area. In addition, in fiscal year 2019, the Department spent approximately \$18,000 on an economic and fiscal impact study that projected the impact of constructing a new 200-bed Home in the Phoenix metropolitan area. According to the Department's fiscal year 2022 budget request, the Phoenix Home is 25 years old and requires expensive repairs and maintenance, such as for its air conditioning and drain systems. The Department reported that it provided the study's results to municipalities that requested it and that it has solicited interest from potential land donors for a new home in Phoenix. According to the Department, it is focused on opening the Flagstaff and Yuma Homes and plans to resume its planning for the Phoenix Home's future once these 2 new Homes are operating.
- **Legislature considered new Homes in Mohave County and Chinle during 2021 session**—Legislation introduced during the 2021 legislative session proposed appropriating \$25 million for the State's share of the initial construction costs of a new Home in Mohave County, with the expectation that the Department would apply for the remaining costs to be paid by the federal government through the VA's State Veterans' Home Construction Grant Program (See Chapter 2, pages 12 through 15, for additional information on this program). Separate legislation proposed appropriating \$9 million for the Navajo Nation for the design and construction costs of a new Home in Chinle. However, the construction costs for this Home could not be shared with the federal government because the Navajo Nation is not eligible to participate in the VA's State Veterans' Home Construction Grant Program.

### Various long-term care options are available to Arizona veterans

Various institutional and noninstitutional options are available to Arizona veterans who require long-term care (see textbox, page 9, for definitions of some institutional long-term care options). The availability of these options in different areas of the State varies, but some or all these options are available to veterans throughout the State. Additionally, veterans may qualify for and obtain long-term care services through the VA, Medicare, Medicaid, and/or private insurance. These options consist of the following:

- **Institutional care options**—As of January 2021, there were 146 CMS-certified nursing homes in Arizona, including the Department’s 2 existing Homes. Thirty-eight of these CMS-certified nursing homes operating across the State were VA-contracted community nursing homes that, similar to the Department’s Homes, are eligible to receive VA resident care payments.

CMS rates the quality of certified nursing homes and ADHS rates the quality of licensed nursing homes (see Chapter 3, pages 16 through 18, for information about the Department’s Homes’ ratings from 2017 through 2019). Specifically, CMS uses a 5-star rating system with 5 stars indicating the nursing home is much above average quality, 3 stars indicating average quality, and 1 star indicating the nursing home is much below average quality. As of January 2021, 30 of 38 VA-contracted community nursing homes in the State, or 79 percent, were rated as 3 stars or above, including 22 that had a 4- or 5-star rating. Additionally, ADHS rates the quality of licensed nursing homes using a letter system with A indicating best and D indicating worst. As of January 2021, 34 of 38 VA-contracted community nursing homes, or 89 percent, had an A or B rating.

In addition, there were 3 VA community living centers in Phoenix, Prescott, and Tucson, which are VA-owned-and-operated facilities that provide eligible veterans with skilled nursing and other long and short-term care.

- **Noninstitutional care options**—There are also several noninstitutional in-home, community-based, and residential long-term care service options available in Arizona that the VA provides directly to eligible veterans or through contracted community providers (see page 11 for more information on the VA’s changing preferences and funding for the long-term care service options it provides). Table 5 provides examples of some of these options that are available to Arizona veterans and that offer a spectrum of services to meet veterans’ needs for care and aim to support veterans in remaining safely in their homes as they age.<sup>6</sup>

### Institutional long-term care options

- **Private nursing homes**—ADHS licensed nursing homes, which may be CMS-certified, that provide care to all eligible individuals, including veterans.
- **VA-contracted community nursing homes**—CMS-certified private nursing homes that contract with the VA to provide care to eligible veterans.
- **VA community living centers**—VA-owned-and-operated facilities that provide eligible veterans with skilled nursing and other long- and short-term care services.

Source: Auditor General staff review of information obtained from ADHS, CMS, and the VA about long-term care options.

**Table 5**  
**Examples of VA noninstitutional in-home, community-based, and residential long-term care options available to Arizona veterans**

Care option	Description
Home-based primary care	Comprehensive, long-term health care services, such as physician visits, provided at home.
Homemaker and home health aide services	Services provided at home to help veterans take care of themselves, including help with daily living activities, such as meal preparation, bathing, and dressing.
Home hospice care	Comfort care provided at home to veterans and their families for terminally ill veterans who have less than 6 months to live and are no longer seeking treatment other than palliative care.
Adult day health care	Program that offers nursing care, social activities, peer support, companionship, and recreation during the day for veterans who need help with activities of daily living.

Source: Auditor General staff review of VA information, including its fiscal year 2021 budget submission, website, and facility locator.

<sup>6</sup> Arizona veterans may also obtain noninstitutional in-home and community-based long-term care services through Medicare or Medicaid. For example, AHCCCS offers adult day health care services, direct care services, and home-delivered meals, and Medicare covers home health services, such as part-time skilled nursing care and physical therapy.

# Arizona’s veteran population is projected to decline, individuals prefer noninstitutional long-term care options, and federal funding priorities have started to shift

Projected declines in veteran populations, individuals’ long-term care preferences, and shifts in VA and CMS funding and preferences for home- and community-based services might impact veterans’ demand for institutional long-term care in Arizona. Specifically:

- Arizona’s veteran population age 65 years and older is projected to decline by nearly 47 percent by 2045**—As shown in Table 6, according to the VA’s population projections, Arizona’s population of veterans age 65 years and older is projected to decline about 47 percent from approximately 255,000 veterans in 2020 to 136,000 veterans in 2045. The projected decline in the number of veterans in each of the geographic areas served by the Homes is also projected to decline between 44 and 56 percent.

**Table 6**  
**Population of Arizona veterans age 65 years and older is projected to decline**  
**Calendar years 2020 through 2045**

Homes’ service areas <sup>1</sup>	2020	2025	2030	2035	2040	2045	Percent change
Phoenix	127,000	117,000	106,000	94,000	81,000	70,000	-44.9
Tucson	42,000	37,000	33,000	27,000	22,000	19,000	-54.8
Yuma	9,000	7,000	6,000	5,000	4,000	4,000	-55.6
Flagstaff	27,000	25,000	22,000	19,000	16,000	14,000	-48.1
Mohave	16,000	14,000	12,000	11,000	10,000	9,000	-43.8
Other	34,000	31,000	27,000	24,000	21,000	20,000	-41.2
<b>State Total</b>	<b>255,000</b>	<b>231,000</b>	<b>206,000</b>	<b>180,000</b>	<b>154,000</b>	<b>136,000</b>	<b>-46.7</b>

<sup>1</sup> According to Department documents, the Yuma Home will serve La Paz and Yuma Counties and the Flagstaff Home will serve Apache, Navajo, Yavapai, and Coconino Counties. The service areas for the existing Homes in Phoenix (Maricopa County) and Tucson (Pima County) and the proposed Home for Mohave County include only statistics for the county in which the Home is located.

Source: Auditor General staff compilation of information from the VA National Center for Veterans Analysis and Statistics.

- Nursing home occupancy has declined and individuals have indicated a preference for noninstitutional long-term care options**—Data from the CDC’s National Center for Health Statistics shows that the number of nursing home residents in the country declined from approximately 1.5 million residents in 1995 to 1.3 million residents in 2016. In that same time frame, national nursing home occupancy rates declined from 84.5 to 79.7 percent. Additionally, an analysis of CMS nursing home data found that between June 2015 and June 2019, the national average nursing home occupancy rate decreased by 2 percent even though more than 550 nursing homes closed during the same time period.<sup>7</sup> The U.S. Department of Health and Human Services has also acknowledged that most people prefer to stay in their homes for as long as possible. Research on long-term care services we reviewed indicates that older people prefer home- and community-based services, including assisted living, more than nursing home care and that nursing home

<sup>7</sup> Flinn, B. (2020). *Nursing home closures and trends: June 2015-June 2019*. Washington, DC: LeadingAge. Retrieved 2/16/2021 from <https://www.leadingage.org/regulation/new-leadingage-report-spotlights-nursing-home-closures>.



use is gradually declining in the country.<sup>8</sup> For example, a long-term care trends poll of Americans age 40 years and older conducted in 2016 found that 77 percent would prefer to receive care in their own home, with 11 percent preferring to receive care in a senior community, 4 percent in a friend or family member's home, and 4 percent in a nursing home.<sup>9</sup>

- **As spending on long-term care services has increased, federal preferences and proportion of funding have shifted away from institutional long-term care**—In its fiscal year 2020 annual performance plan and report, the VA indicated a preference to reduce the use of institutional long-term care services and continue to expand its home- and community-based services. The VA has also stated its goal is to keep veterans in their homes, if that is their desire. Further, according to CMS, home- and community-based services are more cost effective than institutional care for many people, and shifting to these types of services from institutional care has increased the quality of life for people with long-term care needs. Although CMS and VA expenditures for long-term care services have increased, the proportion of spending for institutional services, including nursing homes, has decreased. Further, the VA and CMS have also shifted spending from institutional care to in-home and community-based services. For example, CMS' Medicaid program, the country's largest payer of long-term care services, decreased the proportion of its long-term care expenditures for institutional care from 82 percent in federal fiscal year 1995 to 44 percent in federal fiscal year 2018. Similarly, the VA decreased its long-term care institutional expenditures from 71 percent in federal fiscal year 2016 to 67 percent in federal fiscal year 2020. Moreover, the VA projects that between federal fiscal years 2022 and 2037, the proportion of expenditures for its institutional long-term care services will further decrease from 59 percent to 53 percent of its overall long-term care expenditures.

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<sup>8</sup> AP-NORC Center for Public Affairs Research (AP-NORC). (2016). *Long-term care in America: Expectations and preferences for care and caregiving*. Chicago, IL: NORC at the University of Chicago. Retrieved 2/16/2021 from <https://apnorc.org/wp-content/uploads/2020/02/AP-NORC-Long-term-Care-2016-Trend-Report.pdf>; Kasper, J. D., Skehan, M., & Wolff, J. L. (2017). Care preferences and expectations for long-term services and supports: a U.S. perspective. *Innovation in Aging*, 1(S1), 1075; Lindquist, L. A., Ramirez-Zohfeld, V., Sunkara, P., Forcucci, C., Campbell, D., Mitzen, P., & Cameron, K. A. (2016). Advanced life events (ALEs) that impede aging-in-place among seniors. *Archives of Gerontology and Geriatrics*, 64, 90–95; Keenan, T. A. (2010). *Home and community preferences of the 45+ population*. Washington, DC: AARP. Retrieved 4/23/2020 from <https://assets.aarp.org/rgcenter/general/home-community-services-10.pdf>.

<sup>9</sup> AP-NORC, 2016.



# Processes and requirements for approving veterans' long-term care facilities vary

## Federal government provides grant funding to build or renovate state veterans' homes if states meet requirements and federal monies are available

The VA provides funding to states that meet established requirements to construct or renovate state veterans' homes through its State Veterans' Home Construction Grant Program (Grant Program). The Grant Program will pay for up to 65 percent of the construction costs for a new veterans' home or to renovate an existing building that provides nursing home, assisted living, or adult day health care to veterans. The applying state is responsible for the remaining 35 percent of construction costs, and all land acquisition and operational costs for the facility. Federal laws and regulations require states to meet a variety of requirements and to submit a construction grant application to be eligible for Grant Program funding (see textbox below for examples of Grant Program eligibility and application requirements). Federal law restricts the Grant Program to the 50 states, District of Columbia, and 5 territories, precluding Tribal Nations from applying for VA Grant Program monies to construct state veterans' homes. A Tribal Nation could construct a nursing home for veterans on its land, but it would not be eligible for VA Grant Program funding or VA resident care payments.

### General requirements for Grant Program eligibility

- State has committed its 35 percent share of construction costs.
- State has not exceeded the number of state home nursing and assisted living beds beyond the maximum number designated by the VA. As of September 2020, this number was 1,520 beds for Arizona, including the 320 beds in the Department's existing Homes and 160 in its Homes under construction.<sup>1</sup>
- Home will be in a safe, secure, residential-type area that is accessible to acute medical care facilities, community activities and amenities, and transportation facilities.
- Resident rooms must accommodate no more than 4 residents; have direct access to an exit corridor; have at least 1 outside window; have access to toilet and bathing facilities; and ensure full visual privacy.

### Information required for grant application

- Home construction project scope.
- Documentation showing the site of the home is near a sufficient number of veterans age 65 years or older and a reasonable basis to conclude that the facility will be fully occupied.
- A needs assessment that includes information on the demographic characteristics of the veteran population; number of beds and occupancy rates for VA community living centers, VA-contracted nursing homes, and existing homes; waiting lists at existing homes; and availability of qualified medical care personnel to staff the homes.

<sup>1</sup> This VA-calculated number is based on the number of veterans who are age 65 years or older who resided in the state as of November 30, 2019, and also considers travel distances for veterans and their families.

Source: Auditor General staff review of federal laws and regulations and VA Grant Program information.

The Grant Program also allows states to request a 10 percent increase in total costs of the construction project to account for construction cost changes that occurred during the grant approval process. The Grant Program will pay for up to 65 percent of the construction cost increase, and the applying state is required to pay for the remaining 35 percent. However, once the grant is approved, the VA will not pay for any additional costs. For example, as shown in the textbox, the Grant Program did not cover any costs related to the Department's decision to change the size of the Flagstaff and Yuma Homes from 60 to 80 beds after it approved the Department's construction grants. If the Department's decision to change the number of beds had been made during the grant approval process, the federal government would have covered approximately \$4 million of the additional \$6.1 million in costs as part of its 65 percent match.

If a state veterans' home that is funded 65 percent through the Grant Program ceases to operate within 20 years after the grant was awarded, the VA may recover 65 percent of the current value of the facility from the state or from the current owner of the facility.

Grant Program funding is awarded through a competitive process, and a limited amount of money is available for distribution each year to eligible projects. Specifically, between federal fiscal years 2013 and 2019, the Grant Program's annual appropriation averaged approximately \$104 million, which was not sufficient to fund all states' veterans' home construction and renovation project applications that were eligible for funding (see Table 7). A state may submit multiple grant applications for different state veterans' home construction and renovation projects to the VA for review, but a project becomes eligible for Grant Program funding only when the state commits its 35 percent share of the funding. In federal fiscal year 2018, Congress appropriated an additional \$575 million to the Grant Program to clear the backlog of eligible Grant Program applications, which included Arizona's Flagstaff and Yuma Home applications.

### State General Fund and Department Trust Fund appropriations for Flagstaff and Yuma Homes' construction<sup>1</sup>

Appropriation	Amount (in millions)	State's share
Initial appropriation for construction costs	\$19.2	35%
Additional appropriation for construction cost increase	1.9	35
Additional appropriation for increase in number of beds	6.1	100
<b>Total</b>	<b>\$27.2</b>	

<sup>1</sup> In addition to these appropriations, the Department allocated \$1 million from its Veterans' Donations Fund for new Home construction costs.

Source: Auditor General staff review of the September 20, 2018, Joint Committee on Capital Review meeting agenda and minutes, Joint Legislative Budget Committee appropriations report for fiscal year 2019, and Department-provided information.

**Table 7**  
**Grant Program's annual federal appropriations and funding requested by states for eligible projects**  
**Federal fiscal years 2013 through 2019**  
**(in millions)**

Federal fiscal year	Appropriation	Funding requested for eligible projects	Total number of eligible projects <sup>1</sup>
2013	\$ 85.0	\$257.0	74
2014	85.0	489.2	62
2015	90.0	409.4	53
2016	120.0	550.6	69
2017	90.0	639.8	57
2018	110.0	769.9	61
2019	150.0	250.0	47
<b>Average</b>	<b>\$104.0</b>	<b>\$480.8</b>	<b>60.4</b>

<sup>1</sup> A state can have several projects that are eligible to receive Grant Program funding at one time.

Sources: Auditor General staff review of federal laws and the VA's federal fiscal years 2013 through 2019 priority lists.

Because Grant Program funding is limited, the VA uses a priority system to annually rank and select projects to fund. State applications are prioritized based on criteria outlined in federal law and then further prioritized based on the date the applications were received by the VA. For example, renovation projects intended to address life or safety deficiencies at existing facilities and applications from states that have not previously applied for Grant Program funding are prioritized ahead of projects for other types of renovations or from states whose applications did not demonstrate as much of a need for a new state veterans' home. A construction project may remain on the VA priority list for several years, or indefinitely, based on the availability of funding and its priority ranking.

## Some other states' processes for planning and constructing veterans' homes and the VA's process for planning and constructing skilled nursing facilities are more structured than Arizona's

We did not identify any statutes, rules, or Department policies and procedures that establish specific requirements or guidance for planning and constructing new Homes beyond the Department's statutory authority to acquire property for, construct, and operate Homes in the State. The Department reported its process for planning and constructing new Homes is to obtain and submit the information required to fulfill the previously described VA Grant Program application requirements and State capital planning requirements, which we determined it did for the Flagstaff and Yuma Homes. For example, the Department completed a needs assessment and feasibility study for the Flagstaff and Yuma Homes. Although the Department submitted information from this needs assessment and feasibility study to the VA, it was not required to submit this information to State decision-makers for review.

Additionally, State agencies undertaking capital projects with an estimated total cost of more than \$250,000 are required to present the scope, purpose, and estimated cost of the project to the Joint Committee on Capital Review (JCCR) for review and approval. State agencies that are part of the Arizona Department of Administration's (ADOA) building system, which includes the Department, must also annually submit capital requests to ADOA, including a list of the capital projects the agency seeks to undertake, an explanation of the need for the projects, the effect of the projects on the State's future operating expenses, and any other relevant supporting data requested by ADOA. The Department submitted required information to the JCCR and ADOA as part of its planning for the Flagstaff and Yuma Homes.

According to the National Association of State Veterans' Homes, other states' processes for planning and deciding to construct new homes vary and are not always documented. However, 4 states we reviewed have more structured, and in some cases, statutorily required planning processes that require the state to compile and present specific information to decision-makers to help determine whether to construct new homes.<sup>10</sup> For example:

- **Wyoming**—As of January 2020, Wyoming was in the process of constructing a new home. Wyoming law required the state to take several actions before it applied for Grant Program funding from the VA, including:
  - Conducting studies examining the need and feasibility of a possible new home, including the availability of staff to run the home and the potential demand for a skilled nursing home in the state.
  - Reporting the information from its studies to legislative committees before the Legislature decided whether to provide the state's share of funding to construct the home.
- **Florida**—As of December 2020, Florida was in the process of constructing a new home and its process included the following:
  - Conducting a study examining those areas of the state with the greatest need for the home and presenting the study to the Governor and Cabinet.

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<sup>10</sup> We judgmentally selected Florida, Oregon, West Virginia, and Wyoming based on these states' variation in management and requirements for planning, constructing, and operating new homes and information provided by the National Conference of State Legislatures.

- Soliciting bids from counties with the largest need for a new home to determine which counties were interested in constructing a new home and gather information on proposed home locations.
  - Convening a site-selection committee to evaluate each proposed site.
  - Providing recommendations to the Executive Director of the Florida Department of Veterans' Affairs.
  - Presenting the site recommendations to the Governor and Cabinet to make the final decision on where to locate the home.
  - Working with the VA to secure the federal share of funding to construct the home at the Governor- and Cabinet-approved site location.
- **Oregon**—An Oregon law enacted in 2011 required its state Department of Veterans Affairs to contract for a state-wide study to determine the number of skilled nursing beds needed to meet the current and future needs of veterans and present the report to the Legislative Assembly in 2015. The study was required to determine the number of veterans needing skilled nursing care, the regional areas where services would be provided and the number of veterans within each area who may need skilled nursing care, and the number of veterans needing skilled nursing care whose care could be provided through community care over a 20-year period.
  - **West Virginia**—West Virginia law required the Secretary of its Division of Veterans Affairs to study the need for additional veterans' homes, general housing needs for veterans, and other veteran needs relating to housing. This law required the Secretary to submit the study's results, draft legislation addressing identified needs, and the need for additional state veterans' homes to policymakers by November 2019.

The VA must meet several Congressional reporting requirements for planning and constructing new major medical facilities, including VA-owned and operated skilled nursing facilities. Specifically, federal law requires that when the VA requests funding for major medical facility projects with total costs of more than \$20 million, it is required to submit a prospectus to Congress that includes a detailed estimate of the total costs to construct the facility, demographic data on projected changes in the veteran population, projected facility operating costs, and a detailed estimate of costs for alternatives to construction that were considered.

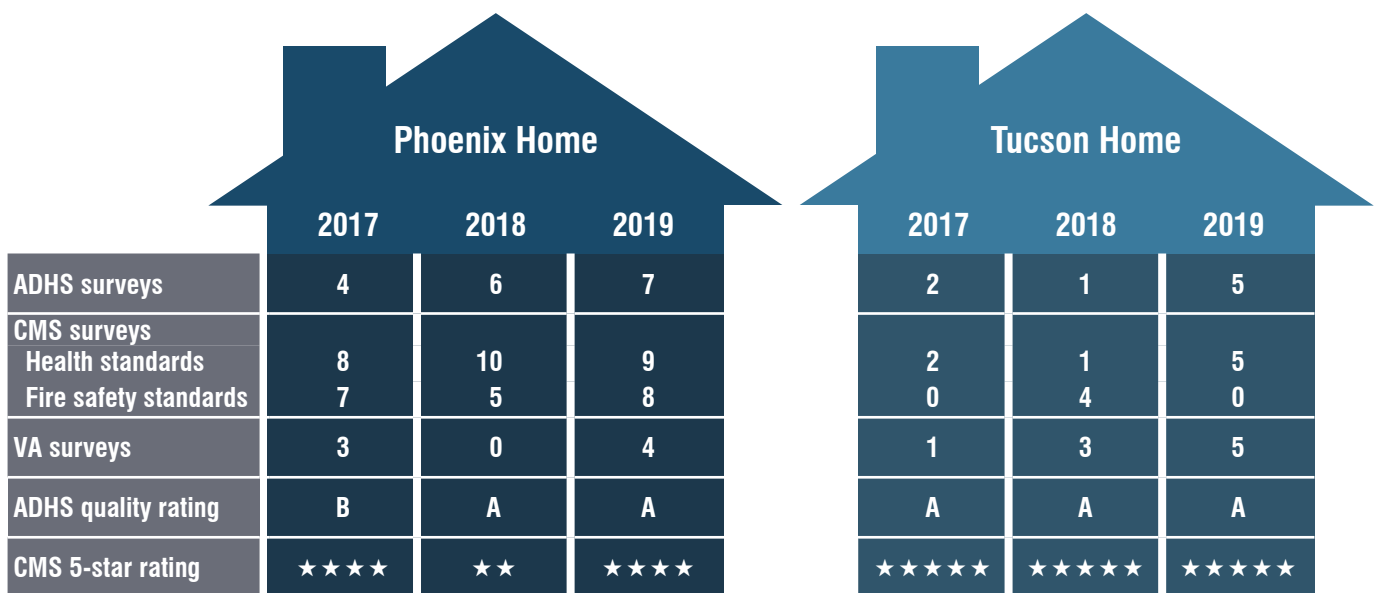


## Homes have been cited for some licensing, health, and safety deficiencies and have taken required corrective action

### Phoenix and Tucson Homes were cited for health, safety, and quality-of-care deficiencies between 2017 and 2019 and took required corrective action

As discussed in the Introduction (see page 3), the Homes must undergo annual ADHS, VA, and CMS surveys to help ensure that they continue to comply with licensing, health, safety, and quality-of-care standards and requirements. ADHS and CMS also issue annual ratings to nursing homes based, in part, on survey results. As shown in Figure 2, between 2017 and 2019, the Homes were cited for deficiencies by ADHS, CMS, and the VA. As required, both Homes submitted corrective action plans and corresponding time frames to correct the identified deficiencies. In 2020, in response to the COVID-19 pandemic, the VA suspended its annual survey requirement, and ADHS performed multiple focused infection-control surveys at the Homes in lieu of conducting comprehensive annual surveys (see page 18 for more information about the Homes' 2020 focused infection-control surveys).

**Figure 2**  
Phoenix and Tucson Homes' number of survey deficiencies and quality ratings 2017 through 2019 survey periods







Source: Auditor General staff review of annual ADHS, CMS, and VA licensing and certification reports; ADHS annual quality ratings; and CMS 5-star overall ratings for the quarter ending June 30, for the 2017 through 2019 survey periods.

Specifically:

- Phoenix Home cited for several deficiencies, exceeding State and national averages for health standards deficiencies, and took required corrective action**—The 2017 through 2019 annual surveys identified several deficiencies at the Phoenix Home. Specifically, in 2019, ADHS, CMS, and the VA cited the Phoenix Home for deficiencies that did not result in actual harm but could potentially harm resident health and safety. In addition, the Home was cited for more health standards deficiencies than both the State and national averages. For example, ADHS cited the Home for failing to ensure that 1 resident was free from physical abuse from another resident; that 1 resident was seen by a physician, as required; that medications were properly labeled and stored; and that infection-control procedures were followed. The VA also cited the Home for failing to ensure that a care plan for 3 of 24 residents sampled who had completed physical and/or occupational therapy was developed to help ensure that these residents maintained their achieved level of motion or mobility. In addition, the Home was cited for several fire safety deficiencies that could cause harm to residents and staff if a fire or equipment malfunction were to occur.

**Phoenix Home cited for more CMS health standards deficiencies than State and national averages**





 Year	 Phoenix Home	 Arizona average	 National average
2017	8	4.1	7.6
2018	10	6.2	8.2
2019	9	6.4	8.3

Source: Auditor General staff review of CMS annual health survey reports for the 2017 through 2019 survey periods.

To correct these deficiencies, the Phoenix Home’s ADHS- and VA-approved corrective action plans indicated how it planned to address the identified deficiencies, including that it planned to review and update resident care plans and educate staff on the Home’s resident-to-resident altercation and abuse policies. The corrective action plans also stated that the Phoenix Home immediately destroyed the mislabeled medications, secured stored medications, and provided education to the 2 staff members responsible for labeling and storing medication containers. ADHS conducted an on-site follow-up visit and reviewed documentation and the VA reviewed documentation to ensure that these deficiencies were corrected.

- Tucson Home cited for fewer deficiencies than State and national averages and took required corrective action**—The Tucson Home has been cited for fewer deficiencies on its annual surveys than the Phoenix Home and received fewer health standards deficiencies than the State and national averages.<sup>11</sup> Specifically, in 2019, ADHS, CMS, and the VA cited the Tucson Home for deficiencies that did not result in actual harm but could potentially harm resident health and safety. For example, in 2019, ADHS cited the Tucson Home for failure to ensure that 1 of 4 residents sampled was correctly administered medication and that expired medications were not used. Further, ADHS cited the Home for continuing to administer a medication to a resident beyond the 10 days prescribed. To correct these deficiencies, the Tucson Home’s ADHS-approved corrective action plan indicated that it planned to conduct weekly reviews of medication

**Tucson Home cited for fewer CMS health standards deficiencies than State and national averages**

 Year	 Tucson Home	 Arizona average	 National average
2017	2	5.1	7.6
2018	1	4.8	7.7
2019	5	6.2	8.1

Source: Auditor General staff review of CMS annual health survey reports for the 2017 through 2019 survey periods.

<sup>11</sup> CMS updates the State and national average number of health standards deficiencies monthly. CMS reported the number of deficiencies for the Phoenix and Tucson Homes as compared to the State and national averages that were current at the time of each Home’s annual survey.

administration, examine medication storage rooms monthly and remove expired medications, and conduct medication reconciliations for newly admitted residents. ADHS followed up on these deficiencies by reviewing documentation to ensure they were corrected.

As shown in Figure 2 (see page 16), although both Homes have received “A” quality ratings from ADHS, their CMS ratings have ranged from a low of 2 stars to a high of 5 stars during the 2017 through 2019 survey periods. ADHS’ ratings were based on each year’s survey results in the areas of nursing services, resident rights, administration, environmental and infection control, and food services, the scope of which is more limited than what CMS considers as part of its overall star rating. In addition, the Tucson Home has consistently received 5-star overall ratings, but the Phoenix Home received a 2-star overall rating in 2018 and 4-star overall ratings in 2017 and 2019. CMS’ overall star ratings were based on the 3 most recent annual health surveys, 36 months of substantiated complaint inspections, the number of nursing hours per day per resident, and clinical measures such as the percent of residents whose ability to move independently worsened. The Phoenix Home’s 2018 overall star rating was negatively impacted by its poor health survey rating, which is the most important dimension in determining the overall CMS rating, according to CMS.

## **2020 surveys focused on infection-control requirements and standards**

Between March and August 2020, in lieu of the comprehensive annual surveys, CMS called for states to focus surveys on infection-control requirements and standards to help mitigate and reduce the spread of COVID-19 and other infections. As of August 2020, CMS notified states that in addition to conducting focused infection-control surveys, comprehensive annual surveys could resume, as resources allowed. Between May and August 2020, ADHS conducted 3 focused infection-control surveys at the Phoenix Home and cited the Home for the same deficiency during each survey. Specifically, the Home was cited for failing to ensure that its infection-control standards were maintained, which could result in the spread of infection, including COVID-19. ADHS also conducted 2 focused infection-control surveys at the Tucson Home in May and December 2020, 1 of which cited the Home for failing to ensure that its infection-control preventionist had completed specialized training in infection prevention and control, which could potentially affect the entire infection-prevention-and-control program, including the Home’s response to COVID-19. The Homes prepared corrective action plans after each focused survey where there was a deficiency cited, which were reviewed and accepted by ADHS. ADHS also conducted off-site documentation reviews to follow up on each of these corrective action plans and determined that at the time of these followups, the Homes followed infection-control requirements and standards. ADHS did not conduct a comprehensive survey at either Home in 2020.

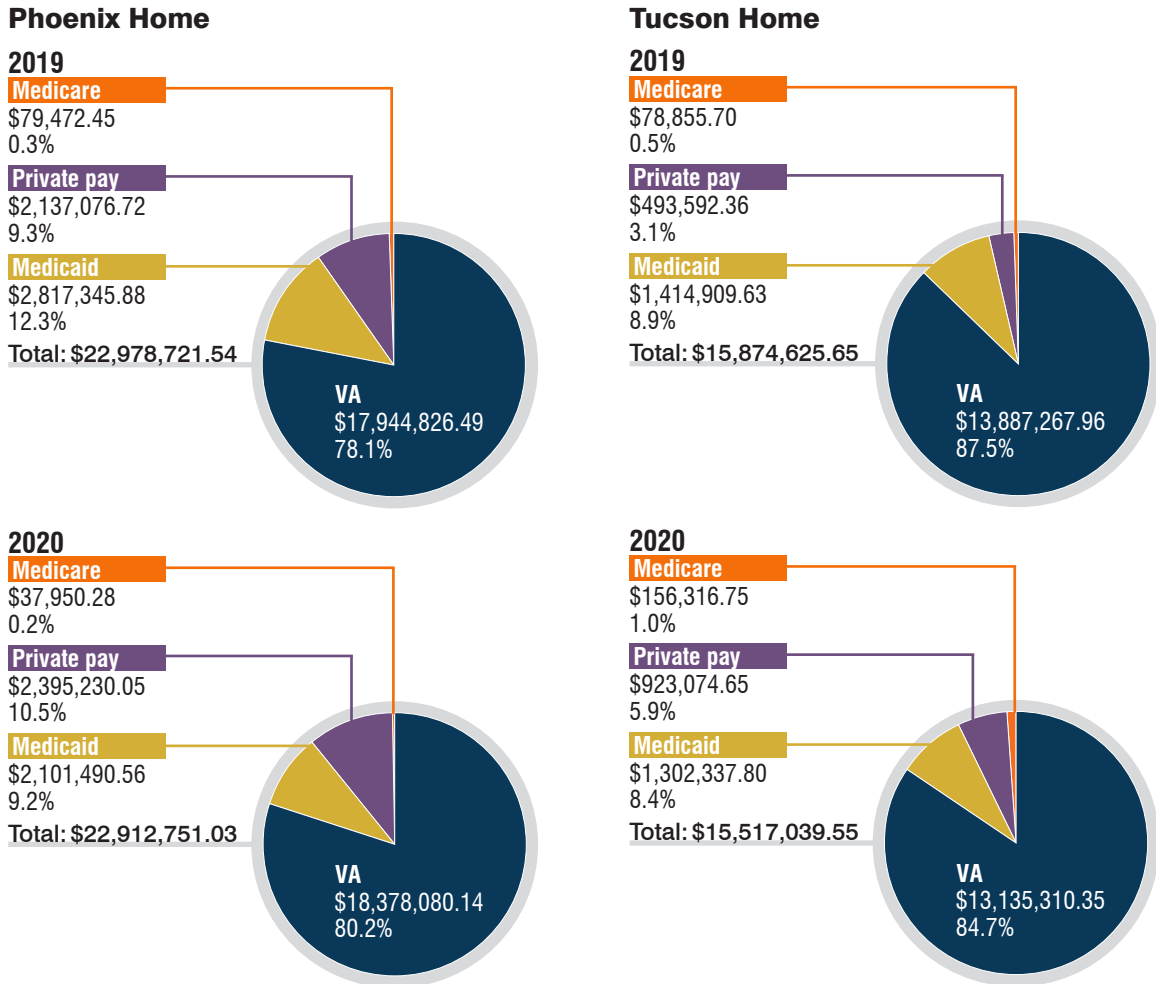
In January 2021, ADHS conducted a third focused infection-control survey at the Tucson Home and did not cite it for any deficiencies.



## Payer sources

As discussed in the Introduction (see page 5), the cost of care and services provided to the Homes' residents is covered through 1 or more of 4 payer sources—the VA, Medicaid, Medicare, and private pay. As shown in Figure 3, during fiscal years 2019 and 2020, the VA was the primary payer for the Homes' resident care services, followed by Medicaid, private pay, and finally, Medicare.

**Figure 3**  
**Amount paid for residents' care by payer source at each Home**  
**Fiscal years 2019 and 2020**  
**(in millions)**



Source: Auditor General staff analysis of Department financial information.

Table 8 provides information on the eligibility requirements, daily payment amount, duration, and services covered by each of these payer sources.<sup>12</sup> The Homes accept payments from the VA, Medicaid, Medicare, and private insurance for resident care and services in lieu of the established daily rate. However, the resident remains responsible for any co-payments, co-insurance, deductibles, and charges for items not covered by these payers. For example, the basic daily rate does not include the cost of hospital care, physician services, laboratory work, x-rays and related medical services, dentures or dental care, optometry appointments, hearing aids, and eyeglasses.

**Table 8**  
**Payer source eligibility requirements, daily payment amount, duration, and services covered**  
**As of August 2020**

Eligibility	Daily payment amount	Duration	Phoenix and Tucson Homes covered services
<b>VA prevailing rate<sup>1</sup></b>			
Must be a veteran in need of nursing home care with a 70 to 100 percent service-connected disability, with a rating of total disability based on individual unemployability; or seeking care for a specific, rated service-connected disability that is less than 70 percent. <sup>2</sup>	VA-determined daily rate for federal fiscal year 2020 that constitutes full payment for the veteran's care: <ul style="list-style-type: none"> <li>Phoenix Home: \$438.64.</li> <li>Tucson Home: \$401.49.</li> </ul>	No limit as long as the resident meets VA prevailing eligibility requirements.	Room and board, nursing services, certain therapies and equipment, social services, activities, laundry service, and routine personal hygiene items.
<b>VA basic rate</b>			
Must be a veteran with service-connected disabilities rated at 60 percent or less who needs nursing home care unrelated to a service-connected disability.	National VA-determined daily rate for federal fiscal year 2020: \$112.36.  Covers a portion of the veteran's care. The veteran must pay the remaining costs through other sources, such as Medicaid or private insurance.	No limit as long as the resident meets VA basic eligibility requirements.	Room and board, nursing services, certain equipment, social services, activities, laundry service, and routine personal hygiene items.
<b>Medicaid</b>			
Must meet State's Medicaid eligibility requirements for long-term care (age/disability, financial and medical eligibility, and residency/citizenship).	Covers all approved services for the veteran's care as determined on a case-by-case basis, minus a monthly fee determined by Medicaid that the resident must pay.	No limit as long as the resident meets Medicaid eligibility requirements.	Room and board, nursing services, certain therapies and equipment, social services, activities, laundry service, and routine personal hygiene items.
<b>Medicare</b>			
Must meet Medicare eligibility requirements for skilled nursing care (age, qualifying hospital stay and medical condition, and physician determines that individual needs daily skilled care).	Covers all approved services for the veteran's care on a case-by-case basis for the first 20 days.  For days 21 through 100, the resident is responsible for paying the Home a daily deductible set by Medicare, which was \$176 as of September 2020.	Will pay up to 100 days per admission.	Room and board, nursing services, certain therapies and equipment, social services, activities, laundry service, and routine personal hygiene items.

<sup>12</sup> During the COVID-19 pandemic, waivers for some payer requirements may have been issued. For example, Medicare waived the 3-day qualifying hospital stay under certain conditions.

## Table 8 continued

Eligibility	Daily payment amount	Duration	Phoenix and Tucson Homes covered services
<b>Private pay</b>			
Must have the resources to cover cost of care, such as personal or family funds, or long-term care insurance.	Basic daily rate as of September 2020: <ul style="list-style-type: none"> <li>• Phoenix Home: \$165.00.</li> <li>• Tucson Home: \$227.00.</li> </ul>	No limit as long as the resident meets payment obligation.	Room and board, nursing services, certain equipment, social services, activities, laundry service, and routine personal hygiene items.

<sup>1</sup> A veteran can qualify for only 1 type of VA payment rate: prevailing or basic.

<sup>2</sup> Generally, a service-connected disability is a disability the VA determines was incurred or aggravated during active military service. The degree of severity of the disability is expressed as a percentage rating.

Source: Auditor General staff review of federal regulations; CMS, VA, and AHCCCS information; and Department Homes' admission information.



## Objectives, scope, and methodology

The Auditor General's Office has conducted a performance audit of the Department pursuant to a September 19, 2018, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq and provides information about the Department's State Veterans' Homes. To obtain information for this report, we:

- Reviewed State and federal statutes, regulations, rules, policies, appropriations reports, session laws, and legal documents for constructing, operating, and administering veterans' homes.
- Reviewed the Department's budget requests, strategic plans, and annual reports; Homes' operational and quality-of-care reports, and Department-provided Homes' staffing information.
- Reviewed information and reports from ADHS, AHCCCS, CMS, the Congressional Research Service, the U.S. Government Accountability Office, and the VA related to nursing care facilities—including veterans' homes—licensing, ongoing compliance monitoring, billing, payments, and services provided.
- Reviewed federal and other states' requirements and processes for constructing veterans' homes, including information obtained from the National Association of State Veterans' Homes and the National Conference of State Legislatures.<sup>13</sup>
- Reviewed information published by the VA, CMS, U.S. Department of Health and Human Services, CDC National Center for Health Statistics, and other reports and information about the future projected decline of veterans populations, changing federal preferences for providing long-term care services, and individuals' preferences for noninstitutional long-term care services.<sup>14</sup>
- Toured the Phoenix and Tucson Homes and interviewed Department and Homes' management and staff.
- Compiled and analyzed data from the Arizona Financial Information System's *Accounting Event Transaction File* for fiscal years 2018 through 2020 and reviewed the State of Arizona *Annual Financial Report* for fiscal years 2009 through 2020.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to the Department's Director and staff and the Homes' Administrators and staff for their cooperation and assistance throughout the audit.

<sup>13</sup> We judgmentally selected Florida, Oregon, West Virginia, and Wyoming based on these states' variations in management and requirements for planning, constructing, and operating new homes and information provided by the National Conference of State Legislatures.

<sup>14</sup> AP-NORC Center for Public Affairs Research (AP-NORC). (2016). *Long-term care in America: Expectations and preferences for care and caregiving*. Chicago, IL: NORC at the University of Chicago. Retrieved 2/16/2021 from [https://apnorc.org/wp-content/uploads/2020/02/AP-NORC-Long-term-Care-2016\\_Trend\\_Report.pdf](https://apnorc.org/wp-content/uploads/2020/02/AP-NORC-Long-term-Care-2016_Trend_Report.pdf); Kasper, J. D., Skehan, M., & Wolff, J. L. (2017). Care preferences and expectations for long-term services and supports: a U.S. perspective. *Innovation in Aging*, 1(S1), 1075; Lindquist, L. A., Ramirez-Zohfeld, V., Sunkara, P., Forcucci, C., Campbell, D., Mitzen, P., & Cameron, K. A. (2016). Advanced life events (ALEs) that impede aging-in-place among seniors. *Archives of Gerontology and Geriatrics*, 64, 90–95; Keenan, T. A. (2010). *Home and community preferences of the 45+ population*. Washington, DC: AARP. Retrieved 4/23/2020 from <https://assets.aarp.org/rgcenter/general/home-community-services-10.pdf>; Flinn, B. (2020). *Nursing home closures and trends: June 2015-June 2019*. Washington, DC: LeadingAge. Retrieved 2/16/2021 from <https://www.leadingage.org/regulation/new-leadingage-report-spotlights-nursing-home-closures>.

# DEPARTMENT RESPONSE



**DOUGLAS A. DUCEY**  
GOVERNOR

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**WANDA A. WRIGHT**  
DIRECTOR

April 1, 2021

Arizona Office of the Auditor General  
2910 N. 44th Street, Suite 410  
Phoenix, AZ 85018

Dear Arizona Office of the Auditor General,

The Arizona Department of Veterans' Services (ADVS) submits this letter in response to the revised performance audit of the Arizona State Veterans' Homes conducted by the Arizona Office of the Auditor General.

ADVS is in agreement with the revised performance audit preliminary report draft received 1 April 2021.

Sincerely,

Wanda A. Wright  
Director

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