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December 31, 2008

Debbie Davenport
Auditor General
2910 N. 44th Street, Suite 410
Phoenix, Arizona 85018

Dear Ms. Davenport,

Thank you for the opportunity to review the report of the performance audit of the Arizona Department of Health Services (ADHS), Division of Licensing Services, Health Care and Child Care Facility Licensing Fees, conducted as part of the sunset review process prescribed in Arizona Revised Statutes § 41-2951 et seq.

The findings and recommendations contained in your report have been carefully reviewed by the staff of ADHS. In accordance with the instructions contained in your letter of December 29, 2008, the attached response is provided.

ADHS agrees with the Auditor General's Report regarding the increased workload, both in quantity and complexity, including a 19 percent increase in the average number of facilities since 2003 and a 158 percent increase in disciplinary actions since 2003. In the past five years, the ability to meet this workload has suffered, causing delays in the issuance of new licenses for businesses. This has resulted in child care and health care facility openings to be postponed. Most of the time staff for these facilities has already been hired, causing businesses to generate a payroll without revenues. Health care and child care programs are not able to inspect facilities within the licensing period in a timely manner or investigate all complaints within department guidelines, resulting in potential health and safety issues. Finally, ADHS has not been able to provide the necessary technical assistance needed to assist facilities to remain in compliance with the rules, thereby protecting health and safety.

ADHS appreciates the hard work and professionalism exhibited, as well as the insight, provided by your staff during the audit process. Your staff conducted extensive research regarding licensing fee models other states have used, and gave the time and effort to learn the very complicated licensing process. Your work on this audit will be of great value to ADHS and ultimately to the State.

We are working diligently to develop a proposal that is both consistent with the report recommendations, and that can enable ADHS to better recruit and retain qualified licensing staff to ensure that our mission is accomplished timely and professionally. Progress on both of these fronts will be key to continuing to improve ADHS's work to protect the health and safety of Arizonans.

Sincerely,

January Contreras
Acting Director
Arizona Department of Health Services

Enclosure

Arizona Department of Health Services
Responses to Recommendations of the Auditor General's Preliminary Draft Report
Division of Licensing, Healthcare and Child Care Facility Licensing Fees

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

- a. Assess the efficiency of its operations to ensure costs are as low as possible and document the results of its assessment. The Department should seek to minimize costs where possible.
- b. Develop fees that address factors that influence cost, including licensed capacity, the time it takes to regulate different facility types, and additional work resulting from noncompliance with licensing goals.
- c. Assesses the adequacy of current systems for tracking direct and indirect cost data for all of its licensing programs. The Department should enhance or develop new systems as needed and as resources are available.
- d. Consider the effect fee increases may have on different facilities and obtain their input in proposing new fees. If proposed fees are significantly higher than current fees, the Department might recommend increasing fees gradually.

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

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

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

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

Response: The recommendation of the Auditor General is agreed to; however, the Department can only submit a proposal and cannot implement this recommendation without legislative approval.

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

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