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August 18, 2021

Lindsey Perry, Auditor General  
State of Arizona Office of the Auditor General  
2910 N. 44th Street, Ste. 410  
Phoenix, AZ 85018

Dear Ms. Perry:

Transmitted is the Arizona Department of Veterans' Services reply to the sunset factors report. The Department agrees with the findings. As outlined in the attached response, the Department has taken action to address each recommendation.

The Department appreciates the Auditor's recommendations as we continually improve our processes to better serve Arizona's veterans.

Sincerely,

Wanda A. Wright  
Director

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**Sunset Factor 2:** The extent to which the Department has met its statutory objective and purpose and the efficiency with which it has operated.

**Recommendation 1:** The Department should obtain and review all necessary close-out documentation from grants awarded during calendar years 2017 through 2019.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Through the course of the Sunset Audit, the Department did due diligence in obtaining missing necessary close-out documentation from grants awarded during calendar years 2017 through 2019. As such, the Department does not feel that it would be effective to make further attempts to collect documentation; however, the VDF Grant Program Manager will review all close out documents on file and will reach out to grantees as applicable for clarification of close out documentation that has not been submitted. Alternatively, the Department will continue applying newly implemented processes to ensure that all of the necessary documentation is obtained (See response to 3h). Per our internal policies, missing deliverables result in denying future grant requests.

**Recommendation 2:** Based on its review of grant close-out documentation for grants awarded during calendar years 2017 through 2019, the Department should determine if grantees need to return unexpended grant monies and if so, request grantees to return those monies.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADVS has obtained a list of grantees identified as not returning VDF grant funds that were not expended and will reach out to each grantee individually to confirm whether or not all monies were expended. If it is determined that monies were expended, the Department will request documentation to support that determination. If it is determined that monies left unexpended were not returned, the Department will request that monies be returned.

After reviewing grant close out documents as in our response to Sunset Factor 2, Recommendation 1, if it is determined that additional grantees may have kept unexpended monies, the Department will contact those grantees as well as determine whether or not the money was spent pursuant to the grant award. If it is confirmed that the money was expended, the Department will request documentation to support that determination. If it is determined that monies left unexpended were not returned, the Department will request that monies be returned.

**Recommendation 3:** The Department should comply with statute, State, and Department grants-management requirements when awarding and monitoring large and small grants from the Veterans' Donations Fund to help ensure grant monies are used for the benefit of Arizona veterans, including ensuring:

**Recommendation 3a:** Awarded grant projects are compatible with the Department's objectives.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: In light of the Arizona Department of Veterans' Services - Veterans' Donations and Military Family Relief Funds Auditor General Report 11-09, the Department has made great strides in improving the VDF Large and Small Grant processes.

Each year the Large and Small Grant Cycles are reviewed by Executive Leadership to identify areas of improvement. For example, the Department reviewed and updated the VDF Consensus Evaluation and Score form in both 2020 and 2021 to ensure more accurate and objective scoring. Large grant applications require the applicant to select a "Grant Category" from the following list:

- Veteran Employment
- Veteran Education
- Veteran Health/Mental Health
- Legal
- Women/Minority Veteran Specific Issues/Programs
- Veteran Homelessness; and
- Other

These categories were specifically created because they align with the Department's Objectives. To continue to ensure that awarded grant projects benefit Arizona Veterans and are compatible with Department objectives, the Department will update both the VDF Consensus Evaluation and Score form and the Review Committee training materials to include emphasis on ensuring that awarded grant projects benefit Arizona veterans and are compatible with the Department's objectives.

**Recommendation 3b:** Applicant's budget worksheets show a line-item breakdown of all revenue and expenses for which the applicant is seeking grant funding.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: As mentioned above, both the Large and Small Grant cycles are reviewed each year to identify areas of improvement. Ensuring that applications are accompanied by budget worksheets showing a line-item breakdown of all revenue and expenses for which the applicant is seeking grant funding is an area of continuous focus.

The Department recognizes that both Small and Large Grant applications come from organizations of all shapes and sizes, many without professional grant writing services. As such, in 2017 the Department created a Budget Worksheet Template available for applicant's to use; however, we will accept other formats and as of July 2021, the ADVS VDF website provides an example of a complete VDF Small grant application and budget worksheet to help applicant's understand what is required of them.

Additionally, for the 2020 and 2021 Large grant cycles, the Department updated both the Large Grant Application Instructions and VDF Large Grant Application to include clear and concise instruction for the budget narrative and line item budget. At this time, the VDF Consensus Evaluation and Score was also updated to provide more weight to the scoring for Financial Information.

To further ensure that an applicant's budget worksheets show a line-item breakdown of all revenue and expenses for which the applicant is seeking grant funding, the Department

will continue to work with applicants educating them on budget worksheet requirements, update Review Committee training materials to better educate our Staff Facilitators and Volunteer Peer Reviewers on budget worksheet requirements, and consider requiring a standardized budget worksheet using a form approved and provided by the Department.

**Recommendation 3c:** Applicant's proposed administrative costs do not exceed 12.5 percent of the total grant funding request.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department agrees with the recommendation to ensure that administrative costs do not exceed 12.5%. Please be aware that not all grantees include administrative costs with their grant requests.

**Recommendation 3d:** Applicants submit 3 bids if contracted services will be part of the grant project.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will update Review Committee training materials to better educate our Staff Facilitators and Volunteer Peer Reviewers on the three bid requirement.

**Recommendation 3e:** The Department director provides written justifications when overriding grant evaluators' recommendations on whether to award the grant.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department was notified of this discrepancy through the Audit process. As such, in preparation for the 2021 Large Grant Cycle, the Large Grant Process standard work was updated in October 2020 to include preparing and filing written justifications when overriding grant evaluators' recommendations on whether to award the grant.

**Recommendation 3f:** The Department notifies the applicant of the award decision within 45 to 60 days for large grants and 30 days for small grants of the application submission date.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: At the time of this finding, the Department has already implemented a process (beginning in 2018) for Small Grants to issue a decision within 30 days of receipt of a complete application. This process entails scheduling a standing meeting that occurs every two weeks between the VDF Grant Program Manager and the internal Small Grant Review Committee (Director, Deputy Director, CFO, PIO and Programs Administrator). Utilizing this process, the Department has been able to better stay within the timeline for issuing decisions. For FY21, VDF Metrics show the average

days to process a complete small grant application was 12 days with 26 days on the high end and 6 days on the low end. It should be noted that the Department starts the 30 day count from receipt of a complete application and does not take into account the days it takes the VDF Grant Program manager to obtain missing information.

**Recommendation 3g:** Grantees provide the Department with required deliverables at the end of the grant, such as information on the grant project's results and a report on how grant monies were spent, including a statement comparing actual to projected expenditures with an explanation of the differences.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Beginning in FY20, the Department implemented changes to both the Large and Small Grant administrative processes to ensure that not only do we receive deliverables from all grantees, but to also ensure that the deliverables are complete with all required information.

Large Grants:

Beginning in October 2020, the ADVS VDF Grant Program Manager and Grants Administrator teamed up to apply an internal process for the State's Subrecipient Management plan for both, award recipients and subrecipients of ADVS grants.

ADVS rates awards and subawards against a standard set of criteria and prioritize the awards and sub awards most in need of onsite monitoring by using a developed and weighted scoring system that is specific to ADVS's needs, while complying with the Code of Federal Regulation (CFR) 2 CFR 200, State of Arizona Accounting Manual (SAAM) section 70, and Grants and Federal Resources (GFR) Grants Management Manual (GMM) Grantor, Section 8 of Arizona's standardized grant processing policies.

Utilizing this process, ADVS required grantees in receipt of awards over the amount of \$25,000.00 to provide program updates each quarter. Upon receipt of deliverables, the ADVS VDF Grant Program Manager and Grants Administrator reviewed the reports and scheduled a desk review for each grantee in the first quarter. The Desk Review consisted of going over their submission, clearing up any discrepancies noted by the Department and providing the grantee with a standardized ledger of future submissions. For 2020, the ledger was strongly recommended but not required.

To further improve on the process of receiving and reviewing deliverables, beginning in 2021, the VDF Grant Program Manager began utilizing the tools in the eCivis Grants Portal to set reporting schedules and to provide a central location for grantees to upload their reporting requirements versus submitting them through email to prevent any submissions from being overlooked. We continued to require quarterly reports with the same review process as described above, but added a mid term reporting requirement due in August for awards less than \$25,000.00.

Small Grants:

As of July 2021, processes have been implemented to ensure the receipt of complete deliverables as follows:

The ADVS VDF webpage was updated to include links to important information pertaining to VDF grants. This includes providing grant recipients with a document explaining

reporting requirements. Additionally, Small Grant Procedures standard work has been updated to include updating the Grants Log with deliverable due dates for each grantee, checking due dates quarterly and following up with reminders as applicable and upon receipt of deliverables, reviewing the submission to ensure all required information is included and request additional information as applicable.

Currently, the deliverables requirement does not require a cost statement comparing actual to projected expenditures with an explanation of the differences. What we do require is:

- A copy of all printed, social or broadcast media or any other materials developed using funds awarded under this VDF Grant to ADVS for approval.
- The names and phone numbers of the organization's staff that will be utilized for the event/project.
- Quantitative and other details on achievements as a result of grant funding.
- Digital photos or other electronic media examples of results.
- Report of expenditures, including total grant budget and total grant expenditures using a ledger provided by the Department.

In accordance with the Auditor's recommendation, the Department will work to continuously improve the processes described above and will update reporting requirements to include a cost statement comparing actual to projected expenditures with an explanation of the differences.

**Recommendation 3h:** Grantees return to the Department all grant monies that were not expended for the grant project.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADVS has codified the VDF Grant application guidance into the award letter that all unexpended grant monies must be returned to the Department. Upon reviewing close out documentation for each VDF grant awarded, ADVS will ensure that unexpended monies are returned.

**Recommendation 4:** The Department should spend Gold Star Family license plate revenues received for the maintenance of the Enduring Freedom Memorial located in Wesley Bolin Plaza, as required by statute.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department is working with members of the Legislature and stakeholders on a plan to update the memorial in fiscal year 2022. Due to COVID-19, efforts to redesign the Enduring Freedom Memorial were postponed.

**Recommendation 5:** The Department should collect the \$45,000 owed from the Arizona American Legion.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department is working with the Arizona American Legion to collect the \$45,000 owed.

**Recommendation 6:** Prior to the next annual renewal of its contract with the Arizona American Legion, the Department should:

- Review and determine the ongoing need for this contract.
- Ensure that if the contract is continued, it complies with all State Procurement Code requirements.
- Work with its Assistant Attorney General to review and determine whether the quarterly payments received from the Arizona American Legion should be deposited in the Veterans' Donations Fund as a donation or the State General Fund as a payment for services.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department's Procurement Unit will manage the contracting process moving forward. Additionally, the Department's Public Intergovernmental Affairs Division will monitor the ongoing contract

**Recommendation 7:** If it continues its contract with the Arizona American Legion, the Department should develop and implement a procedure for monitoring this contract, including a process for ensuring it receives all required payments.

Department response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: ADVS will not continue its contract with the American Legion; however, ADVS will continue to pursue and maintain American Legion accreditation.

**Recommendation 8:** The Department should develop and implement procedures for ensuring it maintains all required supporting documentation and approval forms for Veterans' Donations Fund transactions.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department currently has a process for processing internal VDF transfers and will ensure it is utilized.

**Recommendation 9:** The Department should create a written action plan for developing and implementing ASET-required IT security procedures and based on this action plan, develop and implement ASET-required IT security procedures in line with ASET requirements and credible industry standards, focusing on the IT security areas with the highest security risks first. The action plan should include specific tasks, the status of those tasks, and their estimated completion dates, as well as a process for regularly reviewing and updating the plan based on its progress.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department's IT office is currently implementing this recommendation.

**Sunset Factor 3:** The extent to which the Department serves the entire State rather than specific interests.

**Recommendation 10:** The Department should develop and implement policies and procedures that comply with statutory conflict-of-interest requirements and recommended practices, including requiring all Department employees and committee members to complete an annual conflict-of-interest disclosure form that includes an affirmative statement indicating whether or not a conflict exists; storing completed disclosure statements of substantial interests in a special file available for public inspection; and developing and implementing a process for reviewing and remediating disclosed potential or actual conflicts of interest.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: During new hire orientation, all new employees sign the conflict of interest disclosure form. The Department will develop a process for annual conflict of interest disclosures.

**Sunset Factor 5:** The extent to which the Department has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public

**Recommendation 11:** The Department should ensure that it makes the Committees' meeting minutes or a recording of these public meetings available for public inspection within 3 working days.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department is training staff as backup support to ensure that agenda and meeting minutes for Committees are posted within the required time frame.

**Sunset Factor 6:** The extent to which the Department has been able to investigate and resolve complaints that are within its jurisdiction.

**Recommendation 12:** The Department should resolve Homes' resident grievances within 5 business days as required by Department policy and procedures.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department will add resident grievance resolution time frame as a metric for Tier II scorecards for ASVHs

**Recommendation 13:** The Department should revise the Homes' self-report handling and record-keeping procedures to include provisions for maintaining documentation that self-reports are reported immediately to ADHS and APS, as required by State and federal regulations, and provide training to staff on maintaining this documentation.

Department response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The ASVH-Phoenix has implemented a process of consistently using the online reporting system to ensure receipt and record of a report. ASVH-Tucson management consistently uses the online reporting process during normal working hours; however, reports made after hours are done over the phone. To ensure that documentation showing that self-reports have been reported immediately to ADHS and APS, as required by State and federal regulations, ASVH-Tucson management will provide training to the RN House Supervisors on how to use the online reporting tool. Furthermore, this process will be implemented at both ASVH-Yuma and ASVH-Flagstaff.