

# Arizona Department of Veterans' Services and the Arizona Veterans' Service Advisory Commission

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Sunset Review

August 2021  
Report 21-109

A Report to the Arizona Legislature

Lindsey A. Perry  
Auditor General





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August 24, 2021

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

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

Ms. Joan McDermott, Chair  
Arizona Veterans' Service Advisory Commission

Transmitted herewith is the Auditor General's report, *A Sunset Review of the Arizona Department of Veterans' Services and Arizona Veterans' Service Advisory Commission*. This report is in response to a September 19, 2018, resolution of the Joint Legislative Audit Committee. This sunset review 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.

As outlined in their responses, the Arizona Department of Veterans' Services and the Arizona Veterans' Service Advisory Commission each agree with all the findings and plan to implement or implement in a different manner all the recommendations directed to them.

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

Sincerely,

Lindsey A. Perry, CPA, CFE  
Auditor General

cc: Arizona Veterans' Service Advisory Commission members

## Arizona Department of Veterans' Services (Department) Arizona Veterans' Service Advisory Commission (Commission)

Department and Commission met some statutory objectives and purposes, such as providing benefits counseling assistance to veterans and policy advice to the Governor, but Department did not comply with several Veterans' Donations Fund grant award and monitoring requirements or use Gold Star Family revenues to maintain the Enduring Freedom Memorial and the Commission did not comply with some conflict-of-interest and open meeting law requirements

### Audit purpose

To determine whether the Department provided benefits counseling assistance to veterans; complied with statutory, State, and Department Veterans' Donations Fund grants-management requirements; used Gold Star Family revenues to maintain the Enduring Freedom Memorial as required by statute; and provide responses to the statutory sunset factors for the Department and Commission.

### Key findings

- Department responsibilities include assisting veterans, military service members, and their families and dependents to obtain federal and State earned benefits and maintaining and operating State veterans' homes and memorial cemeteries throughout Arizona. The 9-member Commission is responsible for providing policy advice on veterans' issues to the Governor and Department.
- During fiscal year 2021, Department veteran benefits counselors assisted an average of nearly 40,000 beneficiaries receive an average total of approximately \$56.6 million in VA compensation and pension benefits each month.
- The Department took action to advocate, coordinate, and facilitate State-wide efforts to prevent veteran suicide and end veteran homelessness.
- The Department did not comply with several statutory and other requirements for awarding and monitoring 2 random samples consisting of a total of 20 Veterans' Donations Fund grants we reviewed. By not complying with these requirements, the Department cannot ensure that grant monies it awarded were used as required by statute.
- The Department had not used more than \$43,000 in Gold Star Family specialty license plate revenues to maintain the Enduring Freedom Memorial, as required by statute.
- The Department did not monitor its contract with the Arizona American Legion to ensure it received \$45,000 in payments for services the Department provided during fiscal year 2019.
- The Commission had not complied with various conflict-of-interest statutory requirements and recommended practices and some provisions of the State's open meeting laws.

### Key recommendations

The Department should:

- Comply with Veterans' Donations Fund grants-management statutory and other requirements.
- Spend Gold Star Family license plate revenues as required by statute to maintain the Enduring Freedom Memorial.
- Collect the \$45,000 owed from the Arizona American Legion, review and determine the ongoing need for this contract, and if continued, develop and implement contract monitoring procedures.

The Commission should develop and implement policies and procedures to comply with conflict-of-interest statutory requirements and recommended practices and all open meeting laws.



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The Arizona Auditor General has released the third in a series of 3 audit reports of the Arizona Department of Veterans' Services (Department) as part of the Department's sunset review. The first performance audit (Report 20-104) determined whether the criteria the Department used to approve or deny applications for financial assistance through its Military Family Relief Fund financial assistance program were consistent with statute and whether the Department administered donations and awards consistent with statute and State requirements. The second performance audit (Report 21-101) provided 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. This sunset review determined whether the Department provided benefits counseling assistance to veterans; complied with statutory, State, and Department Veterans' Donations Fund grants-management requirements; used Gold Star Family revenues to maintain the Enduring Freedom Memorial, as required by statute; and provides responses to the statutory sunset factors for the Department and the Arizona Veterans' Service Advisory Commission.

## Department and Commission mission and purpose

The Department's mission is "to be the catalyst in response to the evolving needs of Arizona veterans, service members, and their families." The Department's responsibilities include:

- Assisting veterans, military service members, and their families and dependents to obtain federal and State earned benefits.
- Maintaining and operating State Veterans' Homes and veterans' memorial cemeteries throughout Arizona.
- Managing the State's program that approves schools and training programs to offer curriculum to veterans under the G.I. Bill.<sup>1</sup>

The Arizona Veterans' Service Advisory Commission (Commission) provides policy advice on veterans' issues to the Governor and Department director. Its mission is "to promote public awareness and enhance the well-being of past and present Arizona service members and their families." The Commission comprises 9 Governor-appointed members who serve 3-year terms. Members must be veterans who are nominated for the Governor's consideration by organizations that serve veterans in the State. The Commission does not act in an oversight or regulatory capacity. As of August 2021, the Commission had 1 vacancy.

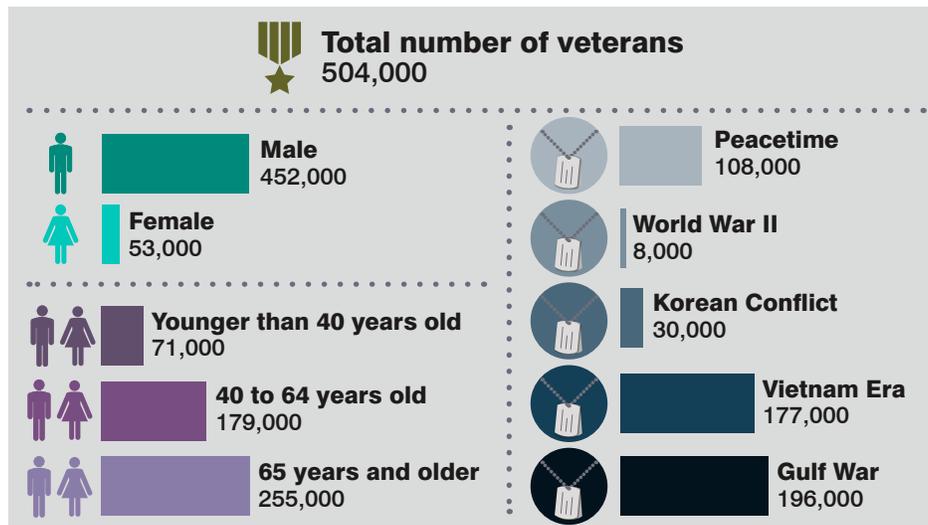
According to the U.S. Department of Veterans' Affairs' (VA) 2018 population projections, Arizona's veteran population for September 2020 was projected to be approximately 504,000. As shown in Figure 1 on page 2, Arizona's veterans were also projected to be primarily older males who served during the Vietnam and Gulf War eras. Additionally, according to the VA's 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 (see Auditor General Report 21-101 for additional information).

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<sup>1</sup> The Servicemen's Readjustment Act of 1944, known as the G.I. Bill of Rights, provided a range of benefits to World War II veterans, including education benefits for tuition costs and expenses to attend college or trade schools. Since 1944, this law has been amended to cover more educational expenses and provide a living allowance, money for books, and the ability to transfer unused educational benefits to spouses or children.

**Figure 1**

**VA projections of Arizona’s September 2020 veteran population by gender, age, and period of service**



Source: Auditor General staff review of the VA’s 2018 population projections of Arizona veterans for September 2020 retrieved 4/12/2021 from [https://www.va.gov/vetdata/veteran\\_population.asp](https://www.va.gov/vetdata/veteran_population.asp).

## Organization, division responsibilities, and staffing

As of March 2021, the Department reported having the following 330 filled full-time equivalent (FTE) positions and 138 vacancies assigned to the 2 State Veterans’ Homes and its various divisions:

- **State Veterans’ Homes (239.5 FTE and 116 vacancies)**—The Homes provide nursing, rehabilitative, and secured memory care for eligible veterans, their spouses, and parents of service members who died while serving in the U.S. Armed Forces. As of July 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. The Department expects construction on these new Homes to be completed in September 2021 and ready to admit residents in calendar year 2022.<sup>2</sup> Additionally, Laws 2021, Ch. 406, §29, appropriated \$25 million to the Department for the State’s 35 percent share of the cost to construct a new Home in the northwestern part of the State (see textbox for additional information about obtaining federal grant monies to construct or renovate veterans’ homes). This legislation also requires the Department to submit proposed locations for the new Home and a feasibility study of these proposed locations’ suitability to

### VA provides grant funding for veterans’ home construction projects if state is eligible and monies are available

The VA will pay for up to 65 percent of the construction costs to construct or renovate a state veterans’ home through a competitive grant program. To be eligible to apply for grant funding, the applying state must commit its 35 percent share of construction costs and submit an application that includes information about the project’s scope, demographic characteristics of the veteran population to be served, and availability of qualified medical personnel to staff the home. Because the grant program has a limited amount of money to distribute each year, the VA uses a priority system to annually rank and select states’ construction projects to award monies. A construction project may remain on the VA priority list for several years or indefinitely, based on available funding.

Source: Auditor General staff review of VA grant program information.

<sup>2</sup> The Department reported that as of March 2021, it had filled 1 position at the Flagstaff Home and needed to fill 243 vacant positions at the 2 new Homes.

the Commission to consider when approving the new Home's location. See Auditor General Report 21-101 for additional information about the Homes, including the process for applying for federal grant funding to construct a new home.

- **Veterans' Services Division (55.5 FTE and 10 vacancies)**—This division provides information and assistance to veterans, their dependents, and survivors about federal and State benefits that have been earned by honorable service in the U.S. Armed Forces through a network of veteran benefits counselors (VBCs). VBCs develop and file claims on veterans' behalf for federal and State disability, pension, insurance, burial, education, home loan, social security, and other social services and benefits (see Sunset Factor 2, page 8, for additional information on the VBCs).

This division also maintains and operates 3 veterans' cemeteries located in Sierra Vista, Marana, and Bellemont. Finally, this division acts as the State Approving Agency, which approves schools and training programs for veterans (see textbox for additional information). Only Department-approved programs can receive VA payments for veterans' educational expenses in line with the federal G.I. Bill's benefits.

Each state has a state approving agency that is responsible for ensuring the quality and integrity of education and training programs in that state that are approved for veterans to use their federally funded educational benefits. Federal laws establish the criteria that all state approving agencies use to approve and monitor educational and training programs to help ensure they comply with state and federal laws.

Source: Auditor General staff review of State and federal laws and Department information.

- **Public and Intergovernmental Affairs Division (5 FTE and 1 vacancy)**—This division operates the Military Family Relief Fund and coordinates State-wide services to end veteran homelessness, prevent veteran suicides, and increase employment opportunities for Arizona veterans. The Military Family Relief Fund provides financial assistance for various expenses—such as living expenses—to eligible current or former military service members and their families. Statute established 2 advisory committees to help the Department award financial assistance from the Military Family Relief Fund (see textbox for more information about these committees). As of February 2021, the Pre-9/11 Advisory Committee had 4 vacancies, and as of April 2021, the Post-9/11 Advisory Committee had 1 vacancy (see Auditor General Report 20-104 for our findings and recommendations related to the Department's administration of the Military Family Relief Fund financial assistance program).

The Pre-9/11 Advisory Committee and Post-9/11 Advisory Committee review applications and make recommendations for awarding financial assistance to applicants whose military service members were deceased, wounded, injured, or became seriously ill before or after September 11, 2001. Each advisory committee comprises the Department Director or his/her designee and 12 Governor-appointed members.

Source: Auditor General staff review of A.R.S. §41-608.04.

- **Administration Division (30 FTE and 11 vacancies)**—This division, which includes the Office of the Director, administers the Veterans' Donations Fund (see Sunset Factor 2, pages 10 through 14, for our findings and recommendations related to the Department's administration of grants from this fund) and provides administrative support services for the Department, including its VBCs, Homes, and cemeteries. These support services include financial services, including grants administration and compliance auditing, information technology, human resources, capital projects management, and purchasing.

## Revenues, expenditures, and fund balances

As shown in Table 1 on pages 4 and 5, in fiscal year 2020, the Department's revenues totaled more than \$73 million, its expenditures totaled approximately \$70 million, and its fund balances totaled nearly \$43 million. The Department has various revenue sources, including fees charged for Homes' resident services, federal grants, the State General Fund, fees for specialty license plates, and donations. Additionally, most of the Department's fiscal year 2020 expenditures were for payroll and related benefits; professional and outside services, including therapeutic and dietary services provided at the Phoenix and Tucson Homes and architectural and engineering

design services for the Flagstaff and Yuma Homes; and the building and equipment costs associated with constructing the Flagstaff and Yuma Homes. The Department's estimated fiscal year 2021 revenues and expenditures were greater than its fiscal year 2020 revenues and expenditures because of the federal grant monies received and costs associated with constructing the Flagstaff and Yuma Homes.

The Department's fund balances, as presented in Table 1, consist of multiple Department fund balances and revenues sources that are restricted for use by statute. For example, as shown in Figure 2 on page 6, the donations the Department receives through the Military Family Relief Fund are for the purpose of providing financial assistance to eligible current or former military service members; their immediate family members; and military widows, spouses, and minor children of military personnel who were killed or wounded in the line of duty. At the end of fiscal year 2020, the Military Family Relief Fund's fund balance was approximately \$6.7 million.

**Table 1**  
**Schedule of revenues, expenditures, and changes in fund balances<sup>1</sup>**  
**Fiscal years 2018 through 2021**  
(Unaudited)

	2018 (Actual)	2019 (Actual)	2020 (Actual)	2021 (Estimate)
<b>Revenues</b>				
Charges for services				
Homes' resident services <sup>2</sup>	\$37,165,835	\$38,853,991	\$38,433,280	38,321,200
Other <sup>3</sup>	811,747	823,941	872,137	871,000
Federal				
Home construction federal grant <sup>4</sup>			12,275,339	25,078,600
Pandemic aid <sup>5</sup>			1,674,076	1,939,460
Other federal grants <sup>6</sup>	1,802,228	1,279,068	995,558	1,726,500
State General Fund appropriations <sup>7</sup>	5,709,910	6,151,556	14,063,631	7,983,500
Specialty license plates	2,030,025	2,390,909	2,763,864	2,570,000
Donations	1,423,764	1,360,372	1,497,438	1,435,400
Interest income	370,563	664,045	466,032	485,000
Native American Veterans' Income Tax Settlement Fund <sup>8</sup>	97,616	7,288		
Other	45,238	59,621	57,123	45,500
<b>Total revenues</b>	<b>49,456,926</b>	<b>51,590,791</b>	<b>73,098,478</b>	<b>80,456,160</b>
<b>Expenditures and transfers</b>				
Payroll and related benefits	24,261,854	26,654,534	26,855,555	25,770,300
Professional and outside services <sup>9</sup>	8,276,443	10,857,735	9,533,029	11,961,900
Travel	141,145	168,616	320,313	105,400
Food	2,189,911	2,392,558	2,150,431	1,193,600
Aid to individuals and organizations <sup>10</sup>	2,122,951	1,849,542	2,101,273	2,010,000
Other operating <sup>11</sup>	4,969,433	5,898,416	6,705,741	7,414,860
Buildings, building improvements, and equipment <sup>12</sup>	1,043,313	891,527	22,259,355	28,694,800
Total expenditures	43,005,050	48,712,927	69,925,697	77,150,860
Transfers to other State agencies <sup>13</sup>	74,200	39,793	107,820	3,500
<b>Total expenditures and transfers</b>	<b>43,079,250</b>	<b>48,752,720</b>	<b>70,033,517</b>	<b>77,154,360</b>
Net change in fund balances	6,377,676	2,838,070	3,064,961	7,694,402
Fund balances, beginning of year	30,483,752	36,861,428	39,699,498	47,393,900
<b>Fund balances, end of year<sup>14</sup></b>	<b>\$36,861,428</b>	<b>\$39,699,498</b>	<b>\$42,764,459</b>	<b>\$55,088,302</b>

<sup>1</sup> The table does not include any monies the Department held in trust for the Homes' residents in the Veterans' Fiduciary Fund.

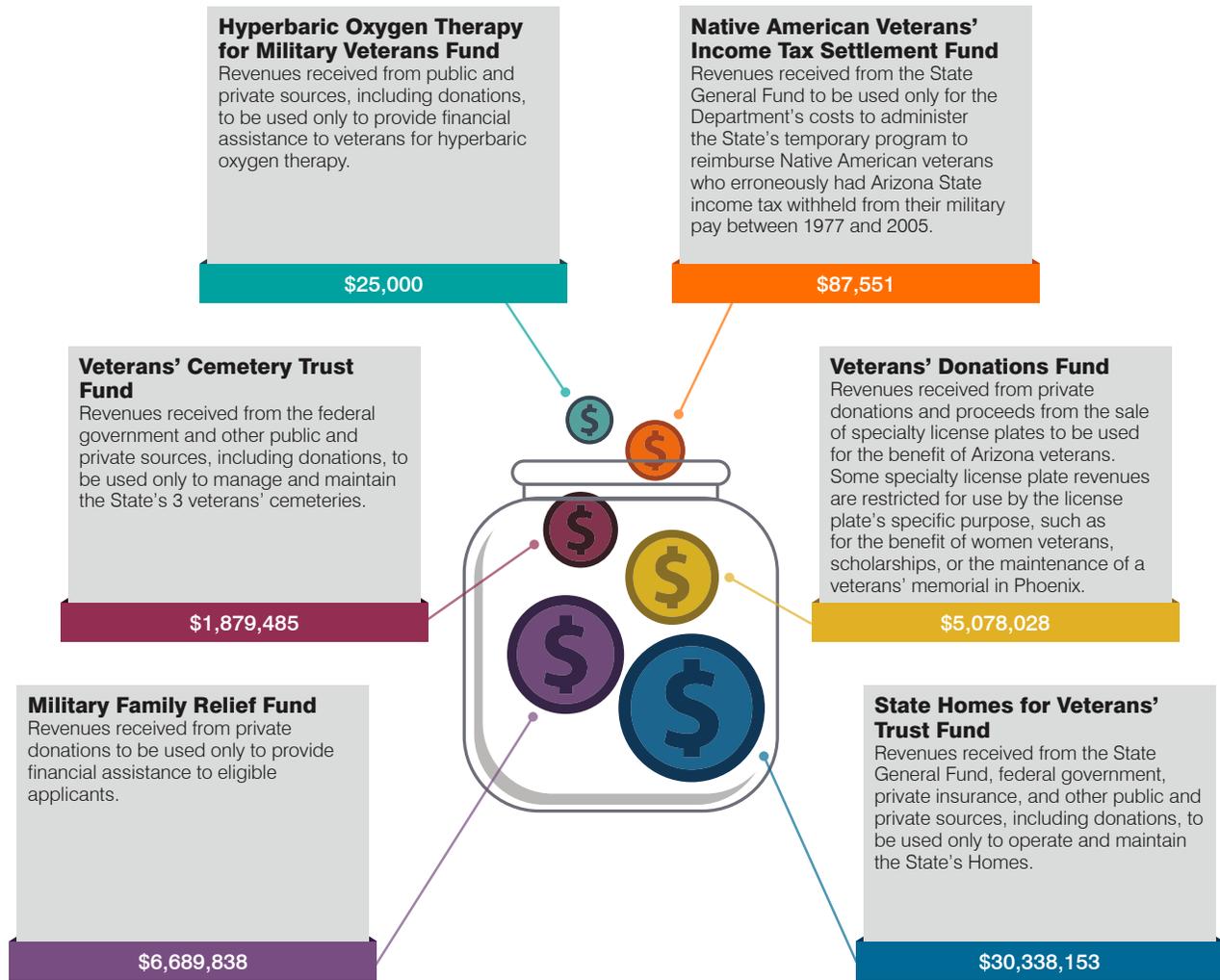
<sup>2</sup> Charges for the Homes' resident services are fees and reimbursements received from residents, the VA, Medicaid, Medicare, and private insurance carriers for resident services.

## Table 1 continued

- <sup>3</sup> Other charges for services were burial-related fees received from the federal government for veterans and from others for family members who were buried at one of the State's 3 veterans' cemeteries. Statute authorizes the Department to use the monies deposited in the State Veterans' Cemetery Trust Fund to manage and maintain the State's 3 veterans' cemeteries.
- <sup>4</sup> The home construction federal grant revenues received in fiscal years 2020 and 2021 were from the VA's Grants to States for Construction of State Home Facilities federal grant program, which helps states acquire, construct, expand, remodel, or alter veterans' homes.
- <sup>5</sup> The fiscal years 2020 and 2021 federal pandemic aid revenues the Department received were from the federal Public Health and Social Services Emergency Fund. These monies were provided by the U. S. Department of Health and Human Services to support skilled nursing facilities, including the Department's Phoenix and Tucson Homes, that experienced healthcare-related expenses or lost revenue because of the COVID-19 pandemic.
- <sup>6</sup> Other federal grants were various federal monies the Department received either directly or from other State agencies that passed through federal monies to the Department. For example, in fiscal years 2018 through 2021, the Department received monies from the VA's All-Volunteer Force Educational Assistance grant, which is intended to help veterans readjust to civilian life after their separation from military service by providing education benefits.
- <sup>7</sup> State General Fund appropriations consist of the amount of the Department's appropriations that were spent in each fiscal year. The amount increased in fiscal year 2020 because the Department expended over \$8.1 million of its \$19.2 million appropriations to pay for the State's share of construction costs for the Flagstaff and Yuma Homes, in accordance with Laws 2015, Ch. 15, §5 and Laws 2016, Ch. 126, §6.
- <sup>8</sup> The Native American Veterans' Income Tax Settlement Fund was established as of May 2016 as a temporary program to reimburse Native American veterans who were on active duty in a branch of the U.S. military armed forces and erroneously had Arizona State income tax withheld from their military pay between 1977 and 2005. The Arizona Department of Revenue operates this program with the Department's assistance, and statute appropriates 5 percent of the monies in this fund at the beginning of each fiscal year to the Department for administrative costs incurred during the fiscal year.
- <sup>9</sup> Professional and outside services expenditures consist of various external services, including medical services such as pharmaceutical, temporary nursing, and rehabilitation therapy services; dietary services; and architectural and engineering services for the Flagstaff and Yuma Homes' construction.
- <sup>10</sup> Aid to individuals and organizations expenditures consist of financial assistance and grants to individuals or organizations that support veterans, service members, and military families. For example, the Department provides financial assistance through the Military Family Relief Fund and grants through the Veterans' Donations Fund.
- <sup>11</sup> Other operating expenditures consist of various expenditures, including drugs, medicine, medical, and other supplies; rent; utilities and telecommunication; repair and maintenance; and security services costs.
- <sup>12</sup> Buildings, building improvements, and equipment expenditures in fiscal years 2020 and 2021 were primarily from the Flagstaff and Yuma Homes' construction costs. For example, the Department expended approximately \$22 million during fiscal year 2020 for these costs, including \$7.4 million from the State General Fund, \$12.5 million from a federal grant (see footnote 4 for additional information), and \$2.1 million from other Department funds.
- <sup>13</sup> Transfers to other agencies were transfers to the Arizona Department of Administration (ADOA) and Arizona Governor's Office for interagency agreements the Department had for various purposes. For example, the Department transferred nearly \$108,000 in fiscal year 2020 to the ADOA for an agreement to provide project management services for the construction of the new Homes in Yuma and Flagstaff.
- <sup>14</sup> Ending fund balances each year were restricted for specific purposes. For example, the fiscal year 2020 ending fund balances included approximately \$30 million in the State Homes for Veterans Trust Fund that was restricted to operating and maintaining the Homes.

Source: Auditor General staff analysis of the Arizona Financial Information System *Accounting Event Transaction File*, State of Arizona *Annual Financial Report* for fiscal years 2018 through 2020, and Department-provided estimates for fiscal year 2021.

**Figure 2**  
**Statutes restrict Department’s use of its various funds’ fiscal year 2020 ending fund balances<sup>1</sup>**



<sup>1</sup> This figure does not include the Department’s Federal Grant Fund and does not reflect Department expenditures made during fiscal year 2020 for the construction of the Yuma and Flagstaff State Veterans’ Homes because of timing and the reimbursement basis on which the VA’s Grants to States for Construction of State Home Facilities federal grant program operates. Therefore, the total fund balance presented in this figure is approximately \$1.3 million more than the total fund balance presented in Table 1 (see pages 4 and 5). Additionally, this figure does not include any monies the Department held in trust for the Homes’ residents, which are deposited in the Veterans’ Fiduciary Fund.

Source: Auditor General staff review of the State of Arizona *Annual Financial Report* for fiscal year 2020, Joint Legislative Budget Committee reports, statutes, and Department financial information.



# SUNSET FACTORS

## Arizona Department of Veterans' Services

Pursuant to A.R.S. §41-2954(D), the legislative committees of reference shall consider but not be limited to the following factors in determining the need for continuation or termination of the Department.

### **Sunset factor 1: The objective and purpose in establishing the Department and the extent to which the objective and purpose are met by private enterprises in other states.**

The Department was established in 1999, and its mission is to be the catalyst in response to the evolving needs of Arizona's veterans and their families. To accomplish this mission, the Department provides direct services to the veteran community through its veteran benefits counselors (VBCs), Homes, veterans' memorial cemeteries, and other State-wide programs designed to aid veterans.

The Department's objective and purpose have been met by private enterprises in other states to varying extents. For example:

- **Veterans' benefits counseling and assistance**—The Department's VA-accredited VBCs develop, file, and help process claims on veterans' behalf for federal and State disability, pension, insurance, burial, education, home loan, social security, and other social services and benefits. Our review of 3 other states—Oregon, Utah, and Wyoming—found that Utah and Wyoming's veterans' services departments employ VBCs, and Oregon relies on county-employed VBCs to provide benefits counseling services, and in some instances, Oregon counties may contract with private entities for the provision of these services.<sup>3</sup> In Arizona and other states, as allowed by federal regulations, benefits counseling and assistance services may also be provided by some national veteran services organizations, such as the American Legion. Department and other VA-accredited VBCs employed by the State, county, and veteran services organizations do not charge a fee for providing these services.

In contrast, according to the federal VA Office of General Counsel, every state has VA-accredited attorneys, and most have VA-accredited claims agents who may help veterans, service members, and their families file and/or appeal claims for VA benefits and may charge a fee for some services. VA Office of General Counsel data indicated that as of December 2020, Arizona had 99 VA-accredited attorneys and 17 VA-accredited claims agents.

- **Veterans' homes**—The Department's Homes provide nursing, rehabilitative, and secured memory care to residents. According to the National Association of State Veterans Homes, all 50 states have 1 or more state veterans' homes. Arizona veterans who require long-term care may choose from several options, including the Department's Homes, VA-contracted and/or federal Centers for Medicare and Medicaid Services (CMS)-certified private nursing homes, or in-home and community-based services (see Auditor General Report 21-101 for additional information about the long-term care options available to Arizona veterans).
- **Veterans' cemeteries**—The Department operates 3 State veterans' cemeteries in Sierra Vista, Marana, and Belmont. According to the VA National Cemetery Administration, 46 states have at least 1 state-administered veterans' cemetery. Arizona's State veterans' cemeteries provide a gravesite, marker, and perpetual care to veterans at no cost and for spouses and dependents for a 1-time \$780 fee. Veterans may also choose burial

<sup>3</sup> We judgmentally selected and contacted 3 other states—Oregon, Utah, and Wyoming—because these states' management and oversight of veterans' services differed from Arizona. For example, in Wyoming, the State Veterans Commission oversees VBCs and the veterans' cemetery, and the Wyoming Department of Health manages its state veterans' home.

in a VA national cemetery or private cemetery and receive a headstone and marker at no charge as part of his/her federal veterans' benefits.

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

The Department met some of its statutory objective and purpose for the areas we reviewed, but it could better meet its statutory objective and purpose in other areas. We identified the following areas where the Department has met its purpose and improved its efficiency:

- VBCs' assistance helped to increase VA payments to veterans and their families between fiscal years 2019 and 2021**—Department VBCs develop, file, and help process claims on veterans' behalf for federal and State disability, pension, insurance, burial, education, home loan, social security, and other social services and benefits. As shown in Table 2, during fiscal year 2021, Department VBCs assisted an average of nearly 40,000 beneficiaries who received an average total of approximately \$56.6 million in VA compensation and pension benefits each month.

In response to the COVID-19 pandemic, the Department established centralized scheduling for VBC appointments and transitioned all its VBCs to providing services remotely using virtual teleconferencing, email, and phone calls. Prior to March 2020, VBCs were assigned to specific geographic service areas, and veterans needed to schedule appointments based on their geographic service area, which may have limited veterans' ability to immediately speak with a VBC because of less flexibility in scheduling appointments. The Department reported that centralizing scheduling for appointments allowed it to schedule the veteran to speak with the next available VBC, regardless of geographic location, resulting in greater VBC productivity and efficiency. Specifically, as of April 2021, the Department reported it was serving approximately 568 new clients per month and that it had reduced wait times to speak with a VBC from up to 9 weeks to typically 3 days or less, with the same number of VBCs.

Further, the Department has decided to permanently close its physical offices and continue to provide VBC services remotely because of the efficiencies and service improvements gained. As of November 2020, the Department estimated it will save approximately \$255,000 annually on leases, utilities, and office supplies by closing 15 VBC offices around the State, 9 of which were leased. Finally, the Department reported it plans to identify locations where Department VBCs can meet with veterans who do not have the technology to meet remotely or who prefer to meet in person. The Department's goal is to work with veteran services organizations and private businesses located around the State and request to use their space for VBC meetings on a temporary, as-needed basis at no cost to the Department. As of August 2021, the Department was in the process of entering into licensing agreements to use the locations it had identified on a temporary, as-needed basis and reported that it plans to begin scheduling VBC meetings at these temporary locations beginning in September 2021.

- Department Homes provide skilled nursing care for veterans**—To provide long-term skilled nursing care to eligible Arizona veterans and their spouses, the Department operates a 200-bed Home in Phoenix and a 120-bed Home in Tucson, and is constructing 2 new 80-bed Homes in Flagstaff and Yuma, which it

**Table 2**  
**VBCs assisted an increasing monthly average number of beneficiaries, which coincided with an increasing monthly average total amount of VA compensation and pension benefits paid Fiscal years 2019 through 2021**

(Unaudited)

Fiscal year	Monthly average	
	Number of beneficiaries assisted	Total amount of benefits paid
2019	37,705	\$50.5 million
2020	38,624	53.2 million
2021	39,722	56.6 million

Source: Auditor General staff review of VA reports of VA compensation and pension benefits paid in fiscal years 2019 through 2021 to beneficiaries assisted by Department VBCs.

expects will begin admitting residents in calendar year 2022. The Homes must be financially self-sustaining and licensed, certified, and recognized by the Arizona Department of Health Services (ADHS), CMS, and the VA. The Phoenix and Tucson Homes provide a variety of services, therapies, and activities for their residents, such as physical therapy and secured memory care. Both Homes were cited by ADHS, CMS, and the VA for health, safety, and quality-of-care deficiencies between 2017 and 2019 and took required corrective action. Additionally, in response to the COVID-19 pandemic, the Department reported implementing screening requirements, restricting visitor access, routinely testing the Homes' staff, and vaccinating residents and staff. See Auditor General Report 21-101 for additional information on the Homes.

- **Department managed the State's program to approve educational and training programs that offer curriculum to veterans**—As of April 2021, the Department had approved 409 educational and training entities and programs in Arizona to offer curriculum to veterans and their dependents under the G.I. Bill, including institutions of higher learning, apprenticeships, on-the-job training, and flight schools. As the State Approving Agency, the Department's responsibilities include reviewing and approving educational institutions' and training programs' applications to offer curriculum to veterans, conducting inspections of the institutions and programs, monitoring their compliance with federal requirements, and submitting reports of its activities and an annual self-evaluation to the VA.
- **Department took action to advocate, coordinate, and facilitate State-wide veteran suicide prevention efforts**—According to a 2019 ADHS report, in 2018, the rate of suicide among Arizona veterans was 2.3 times higher than nonveterans, and suicides accounted for more veteran premature deaths than motor vehicle accidents and homicides. The Department has taken several actions to advocate, coordinate, and facilitate suicide prevention for military service members, veterans, and their family members. For example, the Department has collaborated with other government and community organizations to create, support, and promote Arizona's Be Connected program, a State-wide initiative to strengthen access to support and provide resources for Arizona service members, veterans, and their families. The program's goal is to provide veterans with assistance and resources before they reach the point of contemplating suicide, including providing a 24/7 support line. According to the VA, between its creation in 2017 and 2019, the Be Connected program reported it has helped more than 1,400 individuals through its support line, compiled and posted a list of more than 1,000 resources on its website, and trained more than 3,300 community members as military/veteran resource navigators. The Department also provides suicide prevention information on its website, including contact information for crisis hotlines.
- **Department collaborated with other entities on State-wide efforts to prevent and end veteran homelessness**—The Department has worked in collaboration with other government and community organizations to identify and support critical activities for preventing and eliminating homelessness among Arizona veterans. For example, it participated in developing a State-wide action plan to end veteran homelessness in 2011 and in updating this plan in 2017. The Department contracts with the Arizona Housing Coalition and the Arizona Coalition for Military Families to implement this action plan's 3 key goals and strategies to end veteran homelessness, which are to end street and shelter homelessness, transform the temporary help system, and build infrastructure for long-term sustainability. The Department also reported providing funding to assist homeless veterans, including awarding \$80,000 in Veterans' Donations Fund grant monies between May and November 2020 to organizations assisting veterans facing financial instability directly related to the COVID-19 pandemic. The Department's efforts align with strategies and promising practices identified by the U.S. Interagency Council on Homelessness and the VA's Homeless Programs Office workgroup to end veteran homelessness. According to the U.S. Department of Housing and Urban Development's point-in-time estimates, between 2015 and 2020, Arizona's homeless veteran population declined from 1,220 to 921, or 25 percent, and the estimated number of unsheltered homeless veterans in the State declined from 548 to 342, or 38 percent.

We also identified areas where the Department could better meet its statutory objective and purpose:

- **Department and Military Family Relief Fund Post-9/11 Advisory Committee restricted eligibility for financial assistance, and Department inadequately safeguarded Fund monies and exceeded award limits for some applicants**—According to Department records, in calendar year 2020, the Department

awarded approximately \$598,600 in financial assistance to 92 current and former service members and their families through its Military Family Relief Fund. However, our performance audit and initial follow-up work in June 2021 found that the Department and Post-9/11 Advisory Committee imposed eligibility criteria beyond what statute has set, which restricted eligibility for financial assistance. The Department reported working with the Post-9/11 Advisory Committee, stakeholders, and the Legislature to amend statute during the 2021 legislative session to reflect the Fund eligibility criteria it did not have the authority to impose. According to the Department, it will update its Fund website, application form, application review process, and the Post-9/11 Advisory Committee's bylaws to reflect the statutory changes when Laws 2021, Ch. 70, becomes effective.

We also identified internal control deficiencies regarding the Department's administration of Fund donations and financial assistance awards that exposed the Department to an increased risk of loss or theft of donations and resulted in the Department exceeding the statutory \$20,000 financial assistance award limit in some cases. As of June 2021, the Department had developed and implemented updated donation cash-handling procedures but had discontinued performing supervisory reviews and audits of program records to help ensure it maintains complete and accurate program application, financial assistance award, and payment information. Instead, as of June 2021, the Department has obtained and was in the process of implementing new software to record and manage its donation and applicant information. The Department also reported that this new software will have the capability to generate various management reports, including error and exception reports, to help it better administer the program (see Auditor General Report 20-104 and the Initial Follow-up Report).

- **Department did not comply with several statutory and other State and Department requirements for awarding and monitoring large and small grants from the Veterans' Donations Fund**—The Veterans' Donations Fund was established in 1999 and comprises private donations and proceeds from the sale of specialty license plates. As required by statute and previously described in Figure 2, page 6, this fund's revenues are to be used primarily for the benefit of Arizona veterans. Our 2009 special investigative report and 2011 performance audit report identified several issues with the Department's administration of the Veterans' Donations Fund, including that some expenditures did not benefit Arizona veterans and noncompliance with State requirements for spending public monies.<sup>4</sup> In response to these reports' findings and recommendations, the State Legislature amended statute to remove the Department's authority to spend fund monies at the Department director's discretion. Additionally, the Department developed and implemented formal grants-management processes for awarding small grants of less than \$5,000 and large grants between \$5,000 and \$75,000 from the fund to nonprofit organizations to be used for the benefit of Arizona veterans.

However, as part of this sunset review, we again identified several issues with the Department's grants-management processes for awarding and monitoring the use of Veterans' Donations Fund monies. Statute, State, and Department grants-management requirements prescribe the grant award and monitoring requirements with which the Department and applicants must comply. As shown in Table 3 on page 11, our review of 2 random samples consisting of a total of 20 grants the Department awarded for calendar years 2017 through 2019 found that the Department did not comply with several grant requirements.<sup>5</sup> By not complying with these requirements and ensuring that applicants and grantees provided all required information, the Department could not ensure that the grant monies it awarded were used for events, programs, or projects that benefited Arizona's veterans, as required by statute.

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<sup>4</sup> Office of the Auditor General, Special Investigative Unit. (2009). *Arizona Department of Veterans' Services: Misuse of public monies, conflict of interest, and misfeasance by former director*. Phoenix, AZ.; Office of the Auditor General, Performance Audit Division. (2011). *Arizona Department of Veterans' Services—Veterans' Donations and Military Family Relief Funds*. Phoenix, AZ.

<sup>5</sup> We selected random samples of 10 of 88 small grants and 10 of 56 large grants the Department awarded for calendar years 2017 through 2019. The selected large grantees were cumulatively awarded approximately \$487,000, and the selected small grantees were cumulatively awarded approximately \$44,000. We reviewed these grants against 16 statutory, State, and Department grants-management requirements.

**Table 3**

**Number of instances of noncompliance with grants-management requirements for random samples of Department-awarded grants  
Calendar years 2017 through 2019**

	Large grants	Small grants
<b>Grant-awarding requirements</b>		
 Application's grant project proposal benefits Arizona veterans and is compatible with the Department's objectives.	✘ 2/10 applications included projects that were not compatible with the Department's objectives.	✔
 Application's budget worksheet includes a line-item breakdown of all revenue and expenses for which the applicant is seeking grant monies.	✘ 4/10 applications did not include.	✘ 5/10 applications did not include.
 Application's proposed administrative costs do not exceed 12.5 percent of the total grant monies requested.	✘ 1/10 application exceeded the limit, and 2/10 applications did not specify administrative costs.	✔
 Applicant submits 3 bids if contracted services will be part of the grant project.	✘ 1/1 application included invoices instead of bids for contracted services.	Not applicable.
 Department director provided written justification when overriding grant evaluators' recommendation on whether to award the grant.	✘ 2/2 applications lacked written justification.	Not applicable.
 Department notified the applicant of the award decision within required time frame. <sup>1</sup>	✘ 3/10 notifications exceeded the time frame by 1 day.	✘ 5/10 notifications exceeded the time frame by 6 to 32 days.
<b>Grant-monitoring requirements</b>		
 Grantee provided the Department with information on the results of the grant project.	✘ 3/10 grantees did not submit.	✘ 4/10 grantees did not submit.
 Grantee provided the Department a written report of expenditures, including a cost statement comparing actual to projected expenditures with an explanation of the differences.	✘ 10/10 grantees did not submit.	✘ 10/10 grantees did not submit.
 Grantee returned to the Department all grants monies that were not allowable or expended for the grant project, as shown through the cost statement comparison.	✘ 1/10 grantee did not return unexpended grant monies, and 9/10 grantees did not provide all required information to determine if grant monies should have been returned.	✘ 3/10 grantees did not return unexpended grant monies, and 7/10 grantees did not provide all required information to determine if grant monies should have been returned.

<sup>1</sup> For large grants, the Department was required to notify the applicant of the award decision within 45 to 60 days of the application due date. For small grants awarded for calendar years 2017 and 2018, the Department was required to notify the applicant within 45 to 60 days of the date the grant application was submitted. For small grants awarded for calendar year 2019, the Department was required to notify the applicant within 30 days of the date the grant application was submitted.

Source: Auditor General staff review of statutory, State, and Department grants-management requirements and a randomly selected sample of 10 large and 10 small Department-awarded grants for calendar years 2017, 2018, or 2019.

For example:

- Nine grantees did not provide a complete line-item budget of revenues and expenses for which the applicant was seeking grant monies, as required by the Department and which the Department should have reviewed to determine if grant monies would be spent on allowable costs.
- Grantees did not provide the deliverables required by the Department's grant instructions at the end of the grant period. Specifically, 7 grantees did not provide the results or outcomes of the grant project, event, or program, and none of the 20 grantees provided a final cost statement that reported actual expenditures, invoices and payment information, and a written explanation of any differences in spending from the approved grant proposal as required.
- The Department did not ensure that grantees returned unexpended grant monies. Our review of the available grant close-out documentation provided by grantees found that at least 4 grantees appeared to have a total of approximately \$4,500 in unexpended grant monies, which should have been returned to the Department. Additionally, because none of the 20 grantees provided all the required information to show how grant monies were spent, the Department does not have the information it would need to determine if the remaining 16 grantees should have returned any additional unexpended grant monies.

Based on our inquiries, the Department requested and obtained some missing documents from grantees for the grants we reviewed, such as the results of the grant project. However, prior to August 2021, the Department reported that it would not try to obtain unspent grant monies because of the time elapsed since it awarded the grants in calendar years 2017 through 2019.

Prior to our review, the Department lacked processes and checklists to help ensure grant application materials were reviewed for completeness prior to the grant evaluation committee members' evaluation and Department management's review and approval and to monitor grantees once monies were awarded. Additionally, the grant project deliverables stipulated in the Department's grant instructions did not match the deliverables stipulated in the award letters the Department sent to grantees, which may have contributed to grantees not providing required deliverables. To help it better administer this grant program, as of December 2020 and based on our inquiries, the Department made 1 change to its application materials to provide more detailed instructions to applicants for completing the line-item budget worksheets for grant applications submitted during the calendar year 2021 grant cycle. Further, as of July 2021, the Department reported that it was working with grantees to standardize grant close-out reporting requirements. Finally, the Department revised its process for reviewing new grant applications to verify that the applicant submitted required deliverables for any prior grant awards the applicant had received. Obtaining detailed line-item budget worksheets as part of the application process and standardizing grant close-out reporting requirements should facilitate the Department's ability to properly close out grants and identify if any monies should be returned.

- **Department has not used Gold Star Family specialty license plate revenues to maintain the Enduring Freedom Memorial as required by statute**—Although the Department has received more than \$43,000 in Gold Star Family license plate revenues and donations, as of April 2021, it had not spent any of these monies.<sup>6</sup> Statute requires the Department to use these monies to maintain the Enduring Freedom Memorial in Wesley Bolin Plaza, which honors Arizona military service members who died or were injured during military service during Operation Iraqi Freedom. Despite having monies available, the memorial's list of engraved names has not been updated since 2013. According to the Department, it is working with members of the Legislature and stakeholders on a plan to update the memorial in fiscal year 2022.
- **Department did not monitor its contract with the Arizona American Legion to ensure it received \$45,000 in payments for services the Department provided during fiscal year 2019**—Statute permits the Department to enter into contracts with veterans' service organizations for the benefit of veterans, stipulates

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<sup>6</sup> Gold Star Family specialty license plates are available for purchase through the Arizona Department of Transportation by the immediate family members of individuals who died while serving in the U. S. military. The Department receives \$17 from the sale of each license plate from the Arizona Department of Transportation.

the requirements State agencies must follow when procuring goods and services, and requires that any money due to the State, whatever its source, be deposited with the State. Since at least 2014, the Department has contracted with the Arizona American Legion—a State-wide veteran services organization that provides assistance and support to veterans—to provide veterans’ benefits counseling services to Arizona veterans for payment. Specifically, the 2014 contract stipulated that the Department was responsible for providing 2 Department-employed VBCs to work at the American Legion’s office to process veterans’ benefits claims and that the Arizona American Legion would pay \$60,000 each year in quarterly payments to the Department for this service, to be deposited in the Veterans’ Donations Fund. The Department’s 2019 contract with the Arizona American Legion—which renews automatically each year, indefinitely, unless otherwise extended or canceled—stipulated that the Department would provide 1 VBC and that the Arizona American Legion would pay \$63,600 each year in quarterly payments to be deposited in the Veterans’ Donations Fund for this service. Although the Department provided the contractually specified services to the Arizona American Legion between fiscal years 2018 and 2020 and the Arizona American Legion made 9 of 12 required payments during these 3 fiscal years, the Department failed to collect 3 payments totaling \$45,000 from the Arizona American Legion in fiscal year 2019.

Department financial staff were not aware that the Arizona American Legion owed the Department \$45,000 for services provided in fiscal year 2019 until we notified them, indicating that the Department had not monitored this contract to ensure all parties met their contractual obligations. Further, although the Department’s contract states that it renews automatically each year for an indefinite period, the State Procurement Code limits State agencies’ contracts for goods and services to 5 years unless the Department director determines in writing that exceeding the 5-year limit would be advantageous to the State.<sup>7</sup> The contract does not include this written justification. Finally, Department staff could not explain why the contracts’ terms stipulated that the payments from the Arizona American Legion for services provided by the Department be deposited in the Veterans’ Donations Fund instead of the State General Fund. However, payments received from the Arizona American Legion may not meet the statutory requirement that the Veterans’ Donations Fund comprise gifts, contributions, and other public donations (see Figure 2, page 6, for additional information).<sup>8</sup>

- **Department did not retain required, proper supporting documentation for some transactions—**The *State of Arizona Accounting Manual* requires that documentation, no matter its physical form, must be retained for the applicable period prescribed by the Arizona Secretary of State’s Office record retention schedules. These record retention schedules require financial audit records to be retained for 7 years after the fiscal year-end report is completed. However, the Department could not provide proper supporting documentation for 4 of 34 Veterans’ Donations Fund transactions we reviewed from fiscal years 2018 through 2020.<sup>9</sup> Further, although the Department has a form that its financial staff and Department leadership are required to complete before spending Veterans’ Donations Fund monies, the Department could not provide a completed approval form for 9 of 34 transactions we reviewed from fiscal years 2018 through 2020 to demonstrate that the expenditures were reviewed and approved before their disbursement. For example, the Department could not provide a completed approval form for a \$221,000 payment for software support and maintenance or an \$81,000 payment for temporary staffing services. Without the required documentation, the Department does not have support for or assurance that these expenditures were made to benefit Arizona veterans, as required by statute.
- **Department has not implemented Arizona Strategic Enterprise Technology Office (ASET)-required information technology (IT) policies and procedures—**Arizona State agencies are required to develop IT security-specific policies and procedures consistent with ASET’s State-wide policies and credible industry

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<sup>7</sup> A.R.S. §41-2546.

<sup>8</sup> A.R.S. §41-608.

<sup>9</sup> We judgmentally selected 34 of 2,729 nonpayroll transactions and transfer transactions from the Veterans’ Donations Fund totaling \$6,981,970 between fiscal years 2018 through 2020 for review.

standards.<sup>10</sup> ASET's policies are intended to help State agencies implement recommended IT security practices and to protect the State's IT infrastructure and the data contained therein. During the audit, the Department followed some IT security practices; however, it has not documented most of these practices in IT security policies and procedures as required by ASET. For example, the Department performs monthly vulnerability scans and remediates the identified vulnerabilities, but it does not have a process for ensuring all vulnerabilities are reviewed and remediated within the 30-day time frame required by ASET. Specifically, we performed detailed testing and found that from March to May 2020, the Department had not remediated 18 percent of its vulnerabilities. The Department reported that it prioritized day-to-day IT operations over developing IT security policies and procedures and, as a result, had not developed the IT security policies and procedures required by ASET and was not performing some IT practices required by ASET and credible industry standards. As of July 2021, the Department reported it was reviewing ASET's written policies, had created an overview of its IT practices that references ASET policies, and was planning to continue to update this document and draft written procedures.

## Recommendations

The Department should:

1. Obtain and review all necessary close-out documentation from grants awarded during calendar years 2017 through 2019.
2. Based on its review of grant close-out documentation for grants awarded during calendar years 2017 through 2019, determine if grantees need to return unexpended grant monies and, if so, request grantees to return those monies.
3. Comply with statutory, 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:
  - a. Awarded grant projects are compatible with the Department's objectives.
  - b. Applicant's budget worksheets show a line-item breakdown of all revenue and expenses for which the applicant is seeking grant funding.
  - c. Applicant's proposed administrative costs do not exceed 12.5 percent of the total grant funding request.
  - d. Applicants submit 3 bids if contracted services will be part of the grant project.
  - e. The Department director provides written justifications when overriding grant evaluators' recommendations on whether to award the grant.
  - f. 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.
  - g. 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.
  - h. Grantees return to the Department all grant monies that were not expended for the grant project.
4. 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.

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<sup>10</sup> National Institute of Standards and Technology (NIST). (2013). *NIST Special Publication 800-53, Revision 4: Security and privacy controls for federal information systems and organizations*. Gaithersburg, MD. Retrieved 3/21/19 from <https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP800-53r4.pdf>. These were the credible industry standards established by NIST at the time of our review. NIST revised these standards as of September 2020, see NIST. (2020) *NIST Special Publication 800-53, Revision 5: Security and privacy controls for information systems and organizations*. Gaithersburg, MD. Retrieved 8/16/21 from <https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP800-53r5.pdf>.

5. Collect the \$45,000 owed from the Arizona American Legion.
6. Prior to the next annual renewal of its contract with the Arizona American Legion:
  - 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.
7. If it continues its contract with the Arizona American Legion, develop and implement a procedure for monitoring this contract, including a process for ensuring it receives all required payments.
8. Develop and implement procedures for ensuring it maintains all required supporting documentation and approval forms for Veterans' Donations Fund transactions.
9. 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.

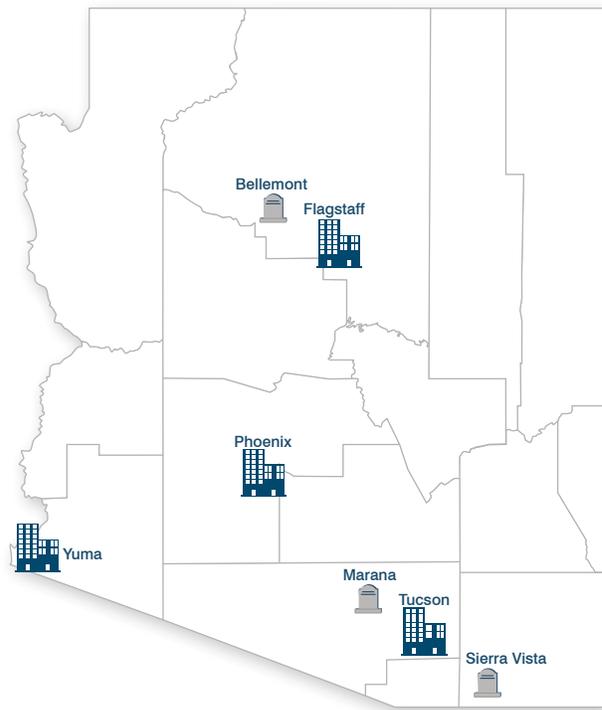
**Department response:** As outlined in its [response](#), the Department agrees with the findings and will implement or implement in a different manner the recommendations.

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

The Department provides services to eligible current and former service members and their families throughout the State. According to the U.S. Census Bureau's July 1, 2019, population estimates, veterans account for approximately 7 percent of the State's population. Figure 3 illustrates some of the ways that the Department serves the entire State, including:

- Providing skilled nursing care to veterans and their spouses in its 200-bed Phoenix Home and 120-bed Tucson Home. The Department will increase its capacity with the opening of the new Homes in Flagstaff and Yuma, which are under construction, expected to be completed in September 2021, and ready to admit residents beginning in calendar year 2022 (see Auditor General Report 20-101 for more information).
- Providing approximately 10,000 burials at its 3 State veterans' cemeteries located in Bellemont, Marana, and Sierra Vista as of April 2021.
- Helping veterans and their families State-wide receive an average total of approximately \$56.6 million in VA compensation and pension benefits each month during fiscal year 2021 through the VBC services it provides.

**Figure 3**  
**Location of State veterans' cemeteries and existing and under-construction veterans' Homes**



Source: Auditor General staff review of Department information.

However, the Department has not complied with some of the State's conflict-of-interest laws and recommended practices. Statute requires public officers and employees of public agencies to avoid conflicts of interest that might influence or affect their official conduct.<sup>11</sup> These laws require public officers to disclose substantial financial or decision-making interests and then refrain from participating in matters related to the disclosed interests. In addition, although not required by statute, recommended practices indicate that conflict-of-interest disclosure statements should be signed annually and require an affirmative statement indicating whether or not a conflict exists. Doing so reminds public officers/employees of the importance of complying with conflict-of-interest laws and helps ensure that potential conflicts are disclosed if their circumstances change.<sup>12</sup> Statute also requires public agencies to maintain a special file that contains completed disclosure statements of substantial interests and to make this file available for public inspection.

The Department did not ensure all Military Family Relief Fund Pre- and Post-9/11 Advisory Committees' members completed a required disclosure form (see the Introduction, page 3, for additional information about these committees). Additionally, although the Department reported that it required new employees to complete a disclosure form at the time of their hire with the State, it did not have a process for employees and public officers to annually update conflict-of-interest disclosure forms or to review and remediate disclosed conflicts. For example, the Department's Military Family Relief Fund Post-9/11 Advisory Committee lacked a process for avoiding and remediating a potential conflict of interest when reviewing an application for financial assistance from another committee member who was eligible for financial assistance. Finally, the Department reported that, based on our inquiries, it created the required special file for completed disclosures of substantial interests for public inspection during the audit, but that as of March 2021, it had not yet received any completed disclosures statements of substantial interests that were required to be included in this file.

## 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:** As outlined in its [response](#), the Department agrees with the finding and will implement the recommendation.

### Sunset factor 4: The extent to which rules adopted by the Department are consistent with the legislative mandate.

The Department's statutes provide it with authority to adopt rules it deems necessary to administer its statutory responsibilities but does not require it to do so. Several of the Department's programs are subject to federal laws and regulations, and therefore, the Department reported that it has determined it does not need to adopt additional administrative rules. As of December 2019, the Department did not have any administrative rules. Statute also requires the Department to adopt rules or policies for administering Veterans' Donations Fund grants of less than \$5,000 that encourage as much competition as practicable. The Department has adopted the required policies in lieu of rules.

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<sup>11</sup> A.R.S. §38-501 et seq. contains the State's conflict-of-interest laws.

<sup>12</sup> Recommended practices we reviewed included the following: Organisation for Economic Co-operation and Development (OECD). (2003). *Recommendation of the council on guidelines for managing conflicts of interest in the public service*. Paris, France. Retrieved 4/16/2020 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>; Controller and Auditor General of New Zealand (2020). *Managing conflicts of interest: A guide for the public sector*. Wellington, New Zealand. Retrieved 3/4/2021 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>; and Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest*. Retrieved 4/16/2020 from <https://www.ethics.org/knowledge-center/conflicts-of-interest-report/>.

**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.**

The Department did not initiate any rulemaking between calendar years 2015 and 2020. Therefore, it has not needed to encourage input from the public for this purpose.

We assessed 8 public meetings for the Military Family Relief Fund Pre-9/11 and Post-9/11 Advisory Committees (Committees) between January and April 2020 and found that these Committees' compliance with various provisions of the State's open meeting laws was mixed.<sup>13</sup> Specifically, although the Committees' meeting notices and agendas contained all the required elements and were posted 24 hours in advance, we identified 4 instances when the meeting minutes were not available within 3 working days, as required by statute. Additionally, statute requires public bodies to post a statement on their website stating where all public meeting notices will be posted. Although the Department's website did not include this required disclosure statement when we began our work, after we made it aware of this requirement, the Department added this statement to its website as of August 2021.

**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:** As outlined in its [response](#), the Department agrees with the finding and will implement the recommendation.

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

The Department receives and resolves complaints related to its different programs and responsibilities, such as its Homes, veterans' educational and training programs, and State veterans' cemeteries. Specifically:

- **Department's Homes are required to comply with State and federal complaint response and reporting requirements to maintain licensure and certifications, but could not demonstrate that they always met resolution and reporting time frames**—The Homes receive resident grievances and make self-reports that may contain allegations of resident neglect and abuse (see textbox). Specifically, federal regulations require the Homes to have a grievance policy that includes the process for residents to file grievances, the time frames for the Homes to respond to and resolve the grievances, and requirements for retaining documentation of the resolutions. In addition, State and federal regulations require the Homes to self-report to the Arizona Department of Health Services (ADHS) and the Arizona Department of Economic Security—Adult Protective Services (APS) all suspected incidents or allegations

**Key definitions and requirements**

**Grievances**—Long-term care facility residents have the right to file a verbal or written grievance with their facility related to their care and treatment, the behavior of staff and other residents, and other concerns regarding their stay in the facility. The Homes' grievance policies require the Homes to respond to and resolve resident grievances within 5 business days and retain documentation of this response and resolution.

**Self-reports**—Also known as facility-reported incidents, all long-term care facilities that are CMS-certified must report incidents that involve potential noncompliance with State licensing requirements and/or CMS certification standards, including resident injuries of an unknown origin; allegations of resident abuse, neglect, or exploitation; and misappropriation of resident property. The Homes are required to self-report allegations of or suspected resident abuse or neglect to ADHS and APS immediately and subsequently complete and submit a written investigative report to ADHS within 5 business days. The Homes must also retain documentation of allegations of suspected resident abuse, neglect, or exploitation; any actions taken; and completed investigative reports for at least 12 months following the date of the self-report.

Source: Auditor General staff review of State and federal laws and regulations, CMS information, and Department information.

<sup>13</sup> A.R.S. §38-431 et seq. contains the State's open meeting laws.

involving resident abuse, neglect, exploitation, or misappropriation of resident property for review and prioritization for possible further investigation.<sup>14</sup>

Although the Phoenix and Tucson Homes responded to the 10 grievances and made the 6 self-reports we reviewed, they did not always do so within 5 business days for grievances or immediately for self-reports, as required.<sup>15</sup> Specifically:

- The Phoenix and Tucson Homes followed their policies to document and respond to 10 grievances received in calendar year 2020 that we reviewed. However, the Phoenix Home exceeded the 5-day time frame for resolving 2 grievances by 1 day and 6 days, respectively.
- For 4 of 6 self-reports of allegations of suspected incidents of resident abuse or neglect we reviewed, the Phoenix and Tucson Homes could not provide evidence—such as auto-generated confirmations or emails from the ADHS and APS reporting websites or telephone logs—demonstrating that the Homes self-reported the incidents to both ADHS and APS immediately, as required.<sup>16</sup> Similarly, in 2018, ADHS cited the Phoenix Home because it could not provide evidence that it immediately reported to ADHS and APS an incident of physical abuse involving 2 residents. Without this documentation, the Homes cannot demonstrate that they complied with State and federal reporting requirements and time frames to protect the vulnerable populations for which they provide care.

As required by State and federal regulations, the Phoenix and Tucson Homes completed investigative reports for the 6 self-reports we reviewed and submitted the investigative reports to ADHS within 5 business days. For example, in response to an allegation that a Tucson Home staff member had hit a resident, a nurse examined the resident and reported the incident to the Home's administrator and director of nursing, who placed the accused staff member on administrative leave pending an investigation. According to the investigative report, the Home reported this allegation to APS and law enforcement immediately. Further, we determined that the Home submitted an investigative report to ADHS within 5 business days as required by State and federal regulations concluding that the abuse allegation was unsubstantiated. The Home reinstated the accused staff person but no longer allowed him/her to care for that resident.

- **Department-managed State program for approving veterans' educational and training programs is required to comply with VA complaint-handling requirements**—As previously described in the Introduction (see page 3), the Department acts as the State Approving Agency (SAA), approving schools and training programs to offer curriculum to veterans under the federal requirements for veterans' educational benefits. The VA may forward or assign complaints to the Department to investigate in its role as SAA, including complaints related to the quality of the education, recruiting and marketing practices, accreditation, grade policy, tuition and fee charges, release of transcripts, student loans, and transfer of credits. The Department is required to adhere to federal regulations and requirements when investigating complaints. According to the Department, it did not receive any SAA-related complaints during fiscal year 2020.
- **Department created a customer comment tracker for its other divisions and programs**—As of November 2020, the Department implemented a customer comment tracker as a central repository to track complaints, suggestions, compliments, and observations from Department staff, customers, and other entities and people with whom the Department interacts. According to Department procedures, all complaints logged

<sup>14</sup> See Auditor General Report 19-112 for more information about ADHS' processes for prioritizing and investigating long-term care facility complaints and self-reports.

<sup>15</sup> We reviewed a random sample of 10 of 43 grievances received by the 2 Homes between January and June 2020 and a judgmental sample of 6 of 44 self-reports from calendar year 2020 for which the 2 Homes had documentation.

<sup>16</sup> Arizona long-term care facilities may make self-reports using ADHS' and APS' online reporting systems, and if they use these automated systems, they receive an auto-generated notification or email confirming receipt of the self-report. If long-term care facilities do not use these automated reporting systems and instead call ADHS or APS to self-report an allegation, they must manually track that the report was made.

in its customer comment tracker must be addressed within 5 business days.<sup>17</sup> The Department received 9 complaints between August and October 2020 while it was piloting the tracker. For example, the Department received a complaint related to the appearance of 1 of its veterans' cemeteries. According to the comment tracker, the complaint was discussed with cemetery staff, who were directed to better maintain and monitor the cemetery grounds, and the Department considered this complaint resolved.

## Recommendations

The Department should:

12. Resolve Homes' resident grievances within 5 business days as required by Department policy and procedures.
13. 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:** As outlined in its [response](#), the Department agrees with the finding and will implement the recommendations.

### **Sunset factor 7: The extent to which the Attorney General or any other applicable agency of State government has the authority to prosecute actions under the enabling legislation.**

A.R.S. §41-192(A)(1) requires the Attorney General to act as the Department's legal advisor and to provide all legal services the Department requires.

### **Sunset factor 8: The extent to which the Department has addressed deficiencies in its enabling statutes that prevent it from fulfilling its statutory mandate.**

The Department reported that the Legislature has enacted a statutory change to address deficiencies in its enabling statutes. Specifically, prior to 2019, the Department's statutory authority to acquire property for, construct, and operate a veterans' home was limited to 1 home in southern Arizona. However, Laws 2019, Ch. 78, amended this statutory authority to allow the Department to acquire property for, construct, and operate multiple Homes in the State.

### **Sunset factor 9: The extent to which changes are necessary in the laws of the Department to adequately comply with the factors listed in this sunset law.**

We did not identify any needed changes to the Department's statutes.

### **Sunset factor 10: The extent to which the termination of the Department would significantly affect the public health, safety, or welfare.**

Terminating the Department would impact the health, safety, and welfare of the Arizona veterans whom it serves. The Department directly provides several important services to veterans, and in 2020, there were an estimated 504,000 veterans living in Arizona. As reported in Sunset Factor 2 (see pages 8 and 9), the Department provides or will provide long-term skilled nursing care to eligible Arizona veterans and their spouses in its 2 existing Homes and the 2 new Homes in Flagstaff and Yuma, which it expects will begin admitting residents in calendar year 2022. It also provides benefits counseling services to help veterans prepare, file, and appeal claims for federal and State earned benefits, which resulted in an average monthly total of approximately \$56.6 million in VA pension and compensation benefits being paid to veterans and their families during fiscal year 2021. It also provided approximately 10,000 veterans and their dependents with dignified ceremonies and burials in the 3 State veterans' cemeteries it maintains and operates, and approved and monitors 409 educational and training programs that veterans may attend using their earned educational benefits. Additionally, the Department

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<sup>17</sup> The Department does not use the comment tracker for complaints and grievances related to its Homes and has developed and implemented separate procedures for these types of complaints.

collaborated with other government and community organizations to support State-wide efforts to prevent and end homelessness and suicide among Arizona veterans.

In addition to the direct impact on veterans, terminating the Department could have a financial impact on the State. Specifically, unless the State designated another agency or contractor to operate and maintain 3 of 4 State Veterans' Homes and the 3 State veterans' cemeteries, the State would be liable for repaying the VA approximately \$79 million in grant monies used to build these Homes and cemeteries.<sup>18</sup>

**Sunset factor 11: The extent to which the level of regulation exercised by the Department compares to other states and is appropriate and whether less or more stringent levels of regulation would be appropriate.**

The level of regulation the Department exercised is similar to the level of regulation exercised by veterans' services agencies in other states. Specifically, the Department's only regulatory authority is its responsibility as the SAA for education and training programs for veterans. Only programs the SAA approves can receive federal G.I. Bill payments. The Department, as the State's SAA, had approved 409 education and training programs in Arizona as of April 2021, including programs such as institutes of higher learning, apprenticeships, and flight schools. The VA provides the funding for this regulatory authority, and federal laws govern program administration and establish criteria for evaluating the educational and training programs. According to the National Association for State Approving Agencies, all states have at least 1 SAA.

**Sunset factor 12: The extent to which the Department has used private contractors in the performance of its duties as compared to other states and how more effective use of private contractors could be accomplished.**

The Department uses private contractors for various functions, the majority of which are for services provided by its Homes such as dietary and therapy services, pharmacy consultants, doctors, temporary nurse staffing, and security guards. Although the Department manages the Phoenix and Tucson Homes, according to the National Association of State Veterans Homes, at least 9 other states contract with private contractors to manage/operate 1 or more of their veterans' homes. For example, Alabama has 4 state veterans' homes operated by a private contractor.

We compared the Department's use of contractors to state veterans' services agencies in Oregon, Wyoming, and Utah and found the following:<sup>19</sup>

- Oregon uses a contractor to operate its 2 state veterans' homes.
- Wyoming uses contractors for cemetery operations and landscaping support, working through a records backlog, coordinating transportation to VA medical centers or other VA-approved medical appointments for veterans living in rural areas, and providing quality control of VA benefits claims and appeals.
- Utah uses contractors to operate its 4 state veterans' homes and for providing emergency pharmacy medications and prepackaging pharmacy medications for the homes. In addition, it contracts for cemetery maintenance and for 1 veteran benefits counselor. Utah has also entered into an interagency agreement with 5 of its rural counties for veteran benefits counselors.

We did not identify any areas where the Department should consider using private contractors.

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<sup>18</sup> If a state accepts VA grant monies to construct a state veterans' home and stops operating the home within 20 years of accepting the grant, the state is responsible for repaying the VA the grant monies awarded. The Phoenix Home is more than 20 years old, and therefore, the State would not be responsible for repaying grant monies to the VA. When a state accepts a grant from the VA to build a cemetery, it agrees to maintain that cemetery indefinitely. If the State does not maintain the veterans' cemetery, it is required to repay all the grant monies the VA provided to construct it.

<sup>19</sup> We judgmentally selected these states because their management and oversight of veterans' services differed from Arizona.



# SUNSET FACTORS

## Arizona Veterans' Service Advisory Commission

Pursuant to A.R.S. §41-2954(D), the legislative committees of reference shall consider but not be limited to the following factors in determining the need for continuation or termination of the Arizona Veterans' Service Advisory Commission (Commission). Because the Commission is established as an advisory commission and does not act in an oversight or regulatory capacity, some factors do not apply.

### **Sunset factor 1: The objective and purpose in establishing the Commission and the extent to which the objective and purpose are met by private enterprises in other states.**

The Veterans' Service Commission was established in 1951 to serve and advocate for veterans and their families. In 1999, the Legislature transferred this commission's powers and duties to the newly established Arizona Department of Veterans' Services (Department) and made the Commission an advisory body to the Department director and to the Governor. The Commission's statutory responsibility is to provide policy advice to the Governor and the director regarding veterans' issues. Although veterans' service organizations, such as the American Legion, may provide input to the Legislature about veterans' issues, the Commission is the only organization statutorily required to provide policy advice on veterans' issues to the Governor and Department.

We judgmentally selected 3 states—Oregon, Wyoming, and Utah—for comparison and found that all 3 states had a veterans' advisory body that provided advice or recommendations to their respective legislatures or governors, in addition to other responsibilities.<sup>20</sup> These states were not aware of private enterprises in their state that performed a similar role or had these responsibilities.

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

The Commission has generally met its statutory objective and purpose to advise the Governor and Department director on veterans' issues. Specifically:

- **Commission provides advice to the Governor through annual letters**—Annually, the Commission sends a letter to the Governor identifying key issues affecting Arizona veterans and their families and priority issues for the upcoming year. The Commission's 2021 letter identified the need for additional veteran benefits counselors, affordable housing and transportation for veterans, and continued support for veterans' suicide prevention efforts as priority issues.
- **Commission provides advice to the Department director through periodic meetings**—The Commission's goal is to communicate with the Department director on veterans' issues at least quarterly. The director or director's designee regularly attends the Commission's quarterly meetings during which the Commission and director/designee share information on veterans' issues and concerns, and possible actions to address them. For example, the Commission provided advice to the director on the need for more veteran benefits counselors, support for veterans' treatment courts, and improving veterans' access to transportation.<sup>21</sup>

<sup>20</sup> We judgmentally selected these states because their management and oversight of veterans' services differed from Arizona. For example, in Wyoming, the State Veterans Commission, which is an organizational unit of the Wyoming Military Department, oversees the state's veteran benefits counselors and veterans' cemetery, and that state's Department of Health manages its state veterans' home.

<sup>21</sup> Veterans' treatment courts work with the criminal justice system to help rehabilitate veterans who have committed nonviolent misdemeanor crimes. Through these courts, veterans with mental health and substance abuse issues enroll in recovery programs designed to help veterans return to the community.

In 2019, the Commission also updated its guidelines and strategic policy objectives, which guide and assist the Commission in its statutory role and help it meet the needs of Arizona veterans. The Commission's strategic policy objectives include supporting veterans' access to the services, supports, and benefits to which they are entitled, such as educational benefits, and establishing veterans' treatment courts throughout the State.

### **Sunset factor 3: The extent to which the Commission serves the entire State rather than specific interests.**

To serve veterans throughout the entire State, the Commission established 3 regions—North (Prescott), Central (Phoenix), and South (Tucson)—aligned geographically with the 3 VA Health Care Systems located in Arizona (see textbox for additional information). Three Commission members represent each region. According to the Commission, this regional organization has helped the Commission conduct outreach, share information, and identify and report gaps in needed services throughout the State to the Department and Governor.

**VA Health Care Systems**—The VA Health Care Systems located in Prescott, Phoenix, and Tucson comprise hospitals, community clinics, and other medical facilities that provide primary, specialty, rehabilitative, and/or long-term care for eligible veterans.

Source: Auditor General staff review of information from the VA.

However, the Commission had not complied with conflict-of-interest statutory requirements and recommended practices prior to our audit. Statute requires public officers, including Commission members, to avoid conflicts of interest that might influence or affect their official conduct.<sup>22</sup> These laws require public officers to disclose substantial financial or decision-making interests, either through a signed document or the entity's official minutes, and then refrain from participating in matters related to the disclosed interests. In addition, although not required by statute, recommended practices indicate that conflict-of-interest disclosure statements should be signed annually and require an affirmative statement indicating whether or not a conflict exists. Doing so reminds public officers of the importance of complying with conflict-of-interest laws and helps ensure that potential conflicts are disclosed if their circumstances change.<sup>23</sup> Finally, statute requires public agencies to maintain a special file that contains completed disclosure statements of substantial interests and to make this file available for public inspection.

A Commission official reported that the Commission had not complied with these conflict-of-interest statutes and recommended practices because its members were not aware of the requirements and that the Department had not asked members to sign conflict-of-interest disclosure statements. In addition, neither the Commission nor Department maintained a special file containing completed disclosure statements of substantial interests available for public review. According to the Commission chair, as of November 2020, the Commission was in the process of working with the Department to have all members sign a disclosure form, and at the Commission's April 2021 quarterly meeting, the Commission chair directed all Commission members to complete a disclosure form and submit it to the Department.

### **Recommendations**

1. The Commission should develop and implement policies and procedures to comply with conflict-of-interest statutory requirements and recommended practices, including:
  - a. Requiring all Commission members to complete an annual conflict-of-interest disclosure form that includes an affirmative statement indicating whether or not a conflict exists.
  - b. Establishing a process to review and remediate disclosed conflicts.

<sup>22</sup> A.R.S. §38-501 et seq. contains the State's conflict-of-interest laws.

<sup>23</sup> Recommended practices we reviewed included the following: Organisation for Economic Co-operation and Development (OECD). (2003). *Recommendation of the council on guidelines for managing conflicts of interest in the public service*. Paris, France. Retrieved 4/16/2020 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>; Controller and Auditor General of New Zealand (2020). *Managing conflicts of interest: A guide for the public sector*. Wellington, New Zealand. Retrieved 3/4/2021 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>; and Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest*. Retrieved 4/16/2020 from <https://www.ethics.org/knowledge-center/conflicts-of-interest-report/>.

- c. Maintaining completed disclosure statements of substantial interests in a special file available for public inspection.

**Commission response:** As outlined in its [response](#), the Commission agrees with the finding and will implement the recommendations.

**Sunset factor 4: The extent to which rules adopted by the Commission are consistent with the legislative mandate.**

This factor does not apply because the Commission does not have authority to promulgate rules.

**Sunset factor 5: The extent to which the Commission 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.**

The Commission does not have the authority to promulgate rules; therefore, it has not needed to obtain input from the public for this purpose.

We assessed 7 Commission meetings held between May 2019 and April 2021 for compliance with various provisions of the State's open meeting laws and found that the Commission's compliance with these provisions was mixed.<sup>24</sup> For example, the Commission's meeting notices and agendas contained all the statutorily required elements, including the dates, times, and locations of the meetings. However, we identified 4 instances when the Commission's meeting minutes were not available within 3 working days and 1 instance when an agenda was not posted 24 hours in advance, as required by statute. Additionally, statute requires public bodies to post a statement on their website stating where all public meeting notices will be posted. Although the Department's website did not include this required disclosure statement for the Commission when we began our work, after we made it aware of this requirement, the Department added this statement to its website as of August 2021.

**Recommendations**

2. The Commission should work with the Department to ensure its compliance with all open meeting laws, including:
  - a. Posting meeting agendas on the Department's website at least 24 hours before public meetings.
  - b. Making meeting minutes or a recording of its public meetings available for public inspection within 3 working days following a meeting.

**Commission response:** As outlined in its [response](#), the Commission agrees with the finding and will implement the recommendations.

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

This factor does not apply because the Commission does not have authority to investigate complaints.

**Sunset factor 7: The extent to which the Attorney General or any other applicable agency of State government has the authority to prosecute actions under the enabling legislation.**

The Attorney General serves as the Commission's legal advisor and provides legal services as the Commission requires, according to A.R.S. §41-192(A)(1).

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<sup>24</sup> A.R.S. §38-431 et seq. contains the State's open meeting laws.

**Sunset factor 8: The extent to which the Commission has addressed deficiencies in its enabling statutes that prevent it from fulfilling its statutory mandate.**

According to the Commission, there are no deficiencies in its enabling statutes that prevent it from fulfilling its statutory mandate.

**Sunset factor 9: The extent to which changes are necessary in the laws of the Commission to adequately comply with the factors listed in this sunset law.**

We did not identify any needed changes to the Commission's statutes.

**Sunset factor 10: The extent to which the termination of the Commission would significantly affect the public health, safety, or welfare.**

Terminating the Commission may have a detrimental effect on the health, safety, and welfare of the Arizona veterans that it serves by eliminating a source of advice to the Governor and the Department director on issues facing veterans. Additionally, Commission outreach activities and meetings provide opportunities for veterans to express their views and concerns and exchange knowledge and ideas, which can be used to help inform the advice the Commission provides to the Governor and Department director.

**Sunset factor 11: The extent to which the level of regulation exercised by the Commission compares to other states and is appropriate and whether less or more stringent levels of regulation would be appropriate.**

This factor does not apply because the Commission has no regulatory authority.

**Sunset factor 12: The extent to which the Commission has used private contractors in the performance of its duties as compared to other states and how more effective use of private contractors could be accomplished.**

The Commission does not use private contractors to perform its advisory responsibilities. We contacted veterans' advisory bodies in 3 states—Oregon, Wyoming, and Utah—to obtain information regarding their use of contractors and found that like the Commission, they do not contract for their advisory services.

We did not identify any areas where the Commission should consider using private contractors.



# SUMMARY OF RECOMMENDATIONS

## Auditor General makes 13 recommendations to the Department and 2 recommendations to the Commission

The Department should:

1. Obtain and review all necessary close-out documentation from grants awarded during calendar years 2017 through 2019 (see Sunset Factor 2, pages 8 through 15, for more information).
2. Based on its review of grant close-out documentation for grants awarded during calendar years 2017 through 2019, determine if grantees need to return unexpended grant monies and, if so, request grantees to return those monies (see Sunset Factor 2, pages 8 through 15, for more information).
3. Comply with statutory, 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:
  - a. Awarded grant projects are compatible with the Department's objectives.
  - b. Applicant's budget worksheets show a line-item breakdown of all revenue and expenses for which the applicant is seeking grant funding.
  - c. Applicant's proposed administrative costs do not exceed 12.5 percent of the total grant funding request.
  - d. Applicants submit 3 bids if contracted services will be part of the grant project.
  - e. The Department director provides written justifications when overriding grant evaluators' recommendations on whether to award the grant.
  - f. 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.
  - g. 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.
  - h. Grantees return to the Department all grant monies that were not expended for the grant project (see Sunset Factor 2, pages 8 through 15, for more information).
4. 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 (see Sunset Factor 2, pages 8 through 15, for more information).
5. Collect the \$45,000 owed from the Arizona American Legion (see Sunset Factor 2, pages 8 through 15, for more information).

6. Prior to the next annual renewal of its contract with the Arizona American Legion:
  - 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 (see Sunset Factor 2, pages 8 through 15, for more information).
7. If it continues its contract with the Arizona American Legion, develop and implement a procedure for monitoring this contract, including a process for ensuring it receives all required payments (see Sunset Factor 2, pages 8 through 15, for more information).
8. Develop and implement procedures for ensuring it maintains all required supporting documentation and approval forms for Veterans' Donations Fund transactions (see Sunset Factor 2, pages 8 through 15, for more information).
9. 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 (see Sunset Factor 2, pages 8 through 15, for more information).
10. 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 (see Sunset Factor 3, pages 15 through 16, for more information).
11. Ensure that it makes the Committees' meeting minutes or a recording of these public meetings available for public inspection within 3 working days (see Sunset Factor 5, page 17, for more information).
12. Resolve Homes' resident grievances within 5 business days as required by Department policy and procedures (see Sunset Factor 6, pages 17 through 19, for more information).
13. 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 (see Sunset Factor 6, pages 17 through 19, for more information).

The Commission should:

1. Develop and implement policies and procedures to comply with conflict-of-interest statutory requirements and recommended practices, including:
  - a. Requiring all Commission members to complete an annual conflict-of-interest disclosure form that includes an affirmative statement indicating whether or not a conflict exists.
  - b. Establishing a process to review and remediate disclosed conflicts.
  - c. Maintaining completed disclosure statements of substantial interests in a special file available for public inspection (see Sunset Factor 3, pages 22 through 23, for more information).

2. Work with the Department to ensure its compliance with all open meeting laws, including:
  - a. Posting meeting agendas on the Department's website at least 24 hours before public meetings.
  - b. Making meeting minutes or a recording of its public meetings available for public inspection within 3 working days following a meeting (see Sunset Factor 5, page 23, for more information).



## Scope and methodology

The Arizona Auditor General has conducted this performance audit and sunset review of the Department and the Commission pursuant to a September 19, 2018, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in A.R.S. §41-2951 et seq.

We used various methods to answer the audit's objectives. These methods included reviewing State and federal laws and regulations; reviewing the Department's strategic planning and budget documents, policies and procedures, and information on the Department's website; and interviewing Department staff. We also reviewed the Commission's policy documents and interviewed the Commission chairman. In addition, we used the following specific methods to meet the audit's objectives:

- To determine whether the Department provided benefits counseling assistance to veterans, we obtained and reviewed VA monthly reports of VA compensation and pension benefits paid in fiscal years 2019 through 2021 to beneficiaries assisted by the Department's VBCs. We also interviewed Department staff and reviewed Department-provided information.
- To determine whether the Department complied with statutory, State, and Department grants-management requirements for awarding and monitoring large and small grants from the Veterans' Donations Fund, we randomly selected samples of 10 of 88 small grants and 10 of 56 large grants awarded for calendar years 2017, 2018, and 2019 and reviewed the associated grant applications, evaluation records, and Department records against 16 requirements outlined in statute, State requirements, and the Department's grant manuals and grant instructions. The randomly selected sample of 10 small grants were awarded approximately \$44,000 of the total \$385,495 awarded for these 88 small grants in this time frame, and the randomly selected sample of 10 large grants were awarded approximately \$487,000 of the total \$2,592,541 awarded for these 56 large grants in this time frame.
- To determine whether the Department complied with statutory requirements for using Gold Star Family specialty license plate revenues to maintain the Enduring Freedom Memorial, we reviewed session laws and information from the Department and the Arizona Financial Information System (AFIS) and interviewed Department financial staff.
- To assess the Department's efforts to monitor its contract to provide VBC services to the Arizona American Legion, we reviewed the contract's requirements and AFIS information for fiscal years 2018 through 2020 and interviewed Department staff.
- To assess the Department's efforts to implement an IT security program and related IT security policies and procedures, we interviewed Department staff and analyzed the Department's IT-related practices, policies, and procedures and compared them to the Arizona Department of Administration's Arizona Strategic Enterprise Technology Office's requirements and credible industry standards, such as those developed by the National Institute of Standards and Technology.<sup>25</sup>

<sup>25</sup> National Institute of Standards and Technology (NIST). (2013). *NIST Special Publication 800-53, Revision 4: Security and privacy controls for federal information systems and organizations*. Gaithersburg, MD. Retrieved 3/21/19 from <https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP.800-53r4.pdf>. These were the credible industry standards established by NIST at the time of our review. NIST revised these standards as of September 2020, see NIST. (2020) *NIST Special Publication 800-53, Revision 5: Security and privacy controls for information systems and organizations*. Gaithersburg, MD. Retrieved 8/16/21 from <https://nvlpubs.nist.gov/nistpubs/SpecialPublications/NIST.SP.800-53r5.pdf>.

- To determine whether the Department and Commission complied with the State's conflict-of-interest laws and recommended practices, we reviewed statutes, recommended practices, the Arizona Department of Administration's required disclosure form, and the Department's conflict-of-interest forms.<sup>26</sup>
- To determine whether the Department and Commission complied with the State's open meeting laws, we reviewed meeting notices, agendas, and minutes for 8 of the Military Family Relief Fund Pre-9/11 and Post-9/11 Advisory Committees' meetings held between January and April 2020, and 7 Commission meetings held between May 2019 and April 2021.
- To obtain additional information for the Sunset Factors, we reviewed information about veteran suicide rates from the Be Connected program and a 2019 report from the Arizona Department of Health Services on State-wide suicide rates. We also reviewed information on efforts to reduce and end veteran homelessness from the U.S. Interagency Council on Homelessness, VA's Homeless Programs Office workgroup, and U.S. Department of Housing and Urban Development. Additionally, we judgmentally selected and contacted 3 other states—Oregon, Utah, and Wyoming—to obtain information about their provision of benefits counseling and assistance services to veterans and their use of private contractors.<sup>27</sup> Finally, we reviewed the Phoenix and Tucson Homes grievance and self-report policies and procedures, interviewed the Homes' administrators, and reviewed a random sample of 10 of 43 grievances received by the Phoenix and Tucson Homes between January and June 2020 and a judgmental sample of 6 of 44 calendar year 2020 self-reports for which the Phoenix and Tucson Homes had documentation.
- To obtain information for the Introduction, we reviewed Department-prepared staffing information, the VA's 2018 projections of Arizona's veteran population for September 2020, and information from the Department's and Commission's websites. In addition, we compiled and analyzed information from the AFIS *Accounting Event Transaction File* for fiscal years 2018 through 2020, the *State of Arizona Annual Financial Report* for fiscal years 2018 through 2020, and Department-prepared estimates for fiscal year 2021.
- Our work on internal controls, including information system controls, included reviewing the Department's and, as applicable, the Commission's policies, procedures, and/or processes for awarding and monitoring grants from the Veterans' Donations Fund; disclosing conflicts of interest; complying with State and credible industry standards' IT requirements; complying with open meeting law requirements; and handling complaints; and where applicable, testing the Department's and Commission's compliance with statutory requirements, State and credible IT security requirements and standards, and Department policies. We also assessed the Department's internal controls related to cash receipts, cash disbursements, payroll, and nonpayroll transactions from the Veterans' Donations Fund for the period of July 1, 2017 through June 30, 2020, and compared these controls to statute, *State of Arizona Accounting Manual* requirements, and Department policies and procedures, as applicable. We judgmentally selected 34 of 2,729 nonpayroll transactions and transfer transactions from the Veterans' Donations Fund totaling \$6,981,970 for the period of July 1, 2017 through June 30, 2020, for review. Our conclusions on these internal controls and the efforts the Department needs to take to improve them are reported in the Department's Sunset Factors 2, 3, and 5 and the Commission's Sunset Factors 3 and 5.

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

<sup>26</sup> Recommended practices we reviewed included the following: Organisation for Economic Co-operation and Development (OECD). (2003). *Recommendation of the council on guidelines for managing conflicts of interest in the public service*. Paris, France. Retrieved 4/16/2020 from <https://legalinstruments.oecd.org/public/doc/130/130.en.pdf>; Controller and Auditor General of New Zealand (2020). *Managing conflicts of interest: A guide for the public sector*. Wellington, New Zealand. Retrieved 3/4/2021 from <https://oag.parliament.nz/2020/conflicts/docs/conflicts-of-interest.pdf>; and Ethics & Compliance Initiative (ECI). (2016). *Conflicts of interest*. Retrieved 4/16/2020 from <https://www.ethics.org/knowledge-center/conflicts-of-interest-report/>.

<sup>27</sup> We judgmentally selected these states because their management and oversight of services provided to veterans differed from Arizona.

We conducted this performance audit of the Department and Commission 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 Commission Chairman and members for their cooperation and assistance throughout the audit.

# DEPARTMENT RESPONSE



**DOUGLAS A. DUCEY**  
GOVERNOR

**STATE OF ARIZONA**  
ARIZONA DEPARTMENT OF VETERANS' SERVICES  
OFFICE OF THE DIRECTOR  
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**WANDA A. WRIGHT**  
DIRECTOR

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.

# COMMISSION RESPONSE



**ARIZONA VETERANS' SERVICES ADVISORY COMMISSION**

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12 August 2021

Ms. Lindsey Perry  
Auditor General  
29010 N. 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Re: Arizona Veterans Services Advisory Commission Sunset Review

On behalf of my fellow Commissioners and myself, I am happy to respond to the sunset review.

We especially appreciated the assistance provided by the audit team to assure that the Commission understood the recommendations and requirements which we will be implementing. Their professionalism made the process a positive and informative experience.

If there are any further steps we need to take in the review process, please contact me.

Sincerely,

Joan B. McDermott  
Chairman

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

**Recommendation 1:** The Commission should develop and implement policies and procedures to comply with conflict-of-interest statutory requirements and recommended practices, including:

**Recommendation 1a:** Requiring all Commission members to complete an annual conflict-of-interest disclosure form that includes an affirmative statement indicating whether or not a conflict exists.

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

Response explanation: **Conflict-of-Interest Forms are now obtained annually & electronically filed at the ADVS office. AVSAC Chair understands that 1 Form may have been missing in the April audit - awaiting verification that all 9 Commissioners' Forms are in the file.**

**Recommendation 1b:** Establishing a process to review and remediate disclosed conflicts.

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

Response explanation: **AVSAC, in conjunction with ADVS, will confer with AZ Boards & Commissions to determine the best process to review & remediate disclosed conflicts & incorporate that process into Commission guidelines.**

**Recommendation 1c:** Maintaining completed disclosure statements of substantial interests in a special file available for public inspection.

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

Response explanation: **Conflict-of-Interest Forms are available to the public by following established agency & AZ request policies. Any disclosure statements of substantial interests will be maintained in a special electronic file.**

**Sunset Factor 5:** The extent to which the Commission 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 2:** The Commission should work with the Department to ensure its compliance with all open meeting laws, including:

**Recommendation 2a:** Posting meeting agendas on the Department's website at least 24 hours before public meetings.

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

Response explanation: **Meeting agendas are now being posted 24 hrs. or more before upcoming public meetings of the AVSAC.**

**Recommendation 2b:** Making meeting minutes or a recording of its public meetings available for public inspection within 3 working days following a meeting.

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

Response explanation: **The ADVS Exec. Secretary now has full IT access, which allows her to assure that the minutes are available on the ADVS website within 3 working days following a meeting. Recordings of the meetings are also available for posting, should there ever be a circumstance in which minutes cannot be produced timely.**

