



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Department of Veterans Affairs
July 1, 1999, through June 30, 2003



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Representative Tim Wilkin, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Jeffrey Olson, Commissioner
Department of Veterans Affairs

We have audited the Department of Veterans Affairs for the period July 1, 1999, through June 30, 2003. Our audit scope included: guardianship revenues and expenditures, payroll expenditures, State Soldier Assistance Program expenditures, and the Vinland Center and Cemetery Improvement grants. The audit objectives and conclusions are highlighted in the individual chapters of this report.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Department of Veterans Affairs complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the department is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Veterans Affairs. This restriction is not intended to limit the distribution of this report, which was released as a public document on October 2, 2003.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: August 29, 2003

Report Signed On: September 30, 2003

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

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Report Summary

Overall Conclusions:

The Department of Veterans Affairs' internal controls provided reasonable assurance that payroll expenditures were accurately recorded in the accounting system and in compliance with applicable legal provisions and management's authorization. The department accurately recorded guardianship revenues and expenditures and grants in the accounting system, adequately safeguarded cash receipts, and properly authorized guardianship expenditures. For the items tested, the department complied with material finance-related legal provisions.

Department Background:

The Department of Veterans Affairs was created in 1943 to serve the veterans of Minnesota and their dependents and survivors. The department acts as an advocate for state veterans in their pursuit of benefits related to service in the armed forces of the United States. Upon request, the department will assist such persons in any attempt to legally obtain benefits under the laws of the United States, the state of Minnesota, or any other state or governmental agency.

<p>Financial-Related Audit Reports address internal control weaknesses and noncompliance issues found during our audits of state departments and agencies. The scope of our work at the Department of Veterans Affairs included guardianship revenues and expenditures, payroll expenditures, State Soldier Assistance Program expenditures, and the Vinland Center and Cemetery Improvement grants for the period of July 1, 1999, through June 30, 2003.</p>

Department of Veterans Affairs

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Chapter 1. Introduction

The Department of Veterans Affairs was created in 1943 to meet the needs of returning World War II veterans. Since its creation, the department has served veterans from the Korean, Vietnam, and Southwest Asia (Persian Gulf) wars and other conflicts. Mr. Jeffrey Olson serves as the commissioner of the department.

The department is organized into two service delivery programs and associated activities: the veterans benefits and services program and the operations program. Veterans benefits and services includes the State Soldier Assistance Program, the Guardianship Program, and the Persian Gulf Bonus Program, which ended on June 30, 2001. In addition, the veterans benefits and services program administered two claims offices that provided representation to veterans, their dependents, and survivors who are pursuing claims for benefits and services from the United States Department of Veterans Affairs.

The department operations program is responsible for all financial and human resources, information technology, purchasing, and accounting functions for the department. In addition, the program manages development and maintenance activities for the State Veterans Cemetery, a state grant provided to the Vinland National Center for veteran rehabilitation services and the County Veterans Service Officer Operational Improvement Grant program.

The following table summarized the financial activities of the department for fiscal year 2000 through 2003.

Department of Veterans Affairs

Table 1-1
Sources and Uses of Funds
Fiscal Years 2000 through 2003

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Sources:				
Appropriations	\$5,910,000	\$4,369,000	\$4,419,000	\$4,484,000
Reductions ⁽¹⁾	0	0	0	(180,000)
Cancellations	0	(612,110)	0	(192,450)
Guardianship Deposits	1,589,599	2,090,551	2,357,948	1,622,917
Receipts	163,666	261,826	255,780	255,081
Federal Reimbursement ⁽²⁾	0	2,520,009	0	0
Other:				
Transfers In	365,726	226,274	210,000	431,000
Transfers Out	(225,000)	(829,500)	(200,000)	(363,049)
Balance Forward In	2,229,298	4,391,303	3,020,505	3,602,320
Balance Forward Out	<u>(4,391,303)</u>	<u>(3,020,505)</u>	<u>(3,602,320)</u>	<u>(1,500,000)</u>
Total Sources	<u>\$5,641,986</u>	<u>\$9,396,848</u>	<u>\$6,460,913</u>	<u>\$8,159,819</u>
Uses:				
Payroll	\$1,798,205	\$1,881,207	\$1,866,338	\$1,834,814
Guardianship	1,555,780	2,134,724	2,331,453	2,461,226
State Soldier Assistance Grants	1,091,189	1,666,854	1,335,432	1,639,568
Vinland Center Grants	261,090	287,990	275,000	143,550
Cemetery Improvement	0	2,520,009	0	0
Other ⁽³⁾	<u>935,722</u>	<u>906,064</u>	<u>652,690</u>	<u>2,080,661</u>
Total Uses	<u>\$5,641,986</u>	<u>\$9,396,848</u>	<u>\$6,460,913</u>	<u>\$8,159,819</u>

Note 1: The Legislature mandated appropriation reductions in fiscal year 2003 for the department.

Note 2: The U.S. Department of Veterans Affairs awarded a grant to the department for the State Veterans Cemetery in Little Falls, Minnesota. The Department of Administration was responsible for overseeing the construction and site improvement. The Department of Veterans Affairs requested reimbursement from grant funds based on Department of Administration's project review. All expenditures of the project were coded to budget fiscal year 2001.

Note 3: Other uses for fiscal year 2003 include \$1,529,596 in outstanding encumbrances as of June 30, 2003.

Source: Minnesota Accounting and Procurement System (MAPS) as of June 30, 2003.

Chapter 2. Personnel/Payroll

Chapter Conclusions

The Department of Veterans Affairs' internal controls provided reasonable assurance that payroll expenditures were accurately recorded in the accounting system and in compliance with applicable legal provisions and management's authorization. For the items tested, the department complied with material finance-related legal provisions and bargaining unit agreements.

The Department of Veterans Affairs spent approximately \$7.4 million on payroll expenditures during the audit period. Payroll represents approximately 27 percent of the department's expenditures. Currently, the department employs 30 permanent employees. These employees belong to various bargaining units and compensation plans, including the American Federation of State, County, and Municipal Employees, Minnesota Association of Professional Employees, Middle Management Association, Commissioner's Plan, and Managerial Plan. The department processes payroll through the state's payroll system (SEMA4) on a biweekly basis.

Audit Objectives and Methodology

Our review of the Department of Veterans Affairs' payroll focused on the following questions:

- Did the department's internal controls provide reasonable assurance that payroll expenditures were accurately recorded in the accounting system and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the department comply with material finance-related legal provisions and bargaining unit agreements governing employees?

To answer these questions, we interviewed department staff to gain an understanding of the internal control structure over the payroll and personnel processes. In addition, we analyzed payroll expenditures to determine unusual trends, reviewed supporting documentation to determine proper authorization, and recalculated some payroll amounts to ensure proper payment.

Conclusion

The Department of Veterans Affairs' internal controls provided reasonable assurance that payroll expenditures were accurately recorded in the accounting system and in compliance with applicable legal provisions and management's authorization. For the items tested, the department complied with material finance-related legal provisions and bargaining unit agreements.

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Chapter 3. Guardianship Revenues and Expenditures

Chapter Conclusions

The Department of Veteran Affairs accurately recorded guardianship revenues and expenditures in the accounting system, adequately safeguarded cash receipts, and properly authorized guardianship expenditures. For the items tested, the department complied with material finance-related legal provisions concerning the guardianship program.

The guardianship program provides financial management services to veterans and dependents of veterans who have been adjudicated to be incompetent to handle their own financial matters. These veterans and their dependents are under the court-appointed guardianship of the commissioner of Veterans Affairs. The guardianship program includes the following three categories of clients: wards, conservatees, and payees. The department has the most authority over ward accounts and the least authority over payee accounts. The courts, the United States Department of Veteran Affairs, or other agencies decide the client's category.

The guardianship program provides comprehensive financial planning and management of client funds, including receipt of income, payment of all living expenses and related bills, and acquisition, maintenance, and disposal of client assets, both real and personal. Annually, the department reports financial activity for each client's account to the courts or other agencies. The department works with the client, the client's family, social service organizations, medical professionals, and courts of competent jurisdiction to develop a financial plan for the client.

As required by statute, the department tracks each client's revenues and expenditures in separate accounts. The department developed a spreadsheet program for this purpose. During the audit period, the number of clients served under the guardianship program went from a high of 150 clients to its current level of 67 clients.

The department deposits client funds in the state treasury, where the State Board of Investment invests the funds. As of June 30, 2003, the department had approximately \$2.3 million of client funds in the state treasury. Interest earnings accrue to individual client accounts. The department maintains a checking account at a local bank to pay guardianship expenditures. Each day, the department transfers funds from the state treasury to the account to maintain an account balance of \$50,000.

Audit Objectives and Methodology

Our review of the Department of Veterans Affairs guardianship program focused on the following questions:

Department of Veterans Affairs

- Did the department accurately record guardianship revenues and expenditures in the accounting system?
- Did the department adequately safeguard cash receipts and properly authorize guardianship expenditures?
- For the items tested, did the department comply with material finance-related legal provisions concerning the guardianship program?

To answer these questions, we interviewed department staff to gain an understanding of the internal control structure over the guardianship program. In addition, we analyzed the guardianship revenues and expenditures to determine unusual trends, reconciled balances between the accounting systems, reviewed bank reconciliations, and reviewed supporting documentation to determine proper authorization.

Conclusion

The Department of Veteran Affairs accurately recorded guardianship revenues and expenditures in the accounting system, adequately safeguarded cash receipts, and properly authorized guardianship expenditures. For the items tested, the department complied with material finance-related legal provisions concerning the guardianship program.

Chapter 4. Grants

Chapter Conclusions

The Department of Veterans Affairs accurately recorded grant expenditures in the accounting system. For the items tested, the department complied with material finance-related legal provisions related to the State Soldiers Assistance Program, the Vinland National Center grant program, and the Cemetery Improvement Grant.

The Department of Veterans Affairs gave grants under the State Soldiers Assistance Program, granted funds to the Vinland National Center, and used federal reimbursement grant funding for the Cemetery Improvement Grant. The department also granted funds to the County Veterans Service Officer Operational Improvement Grant Program and the Persian Gulf War Bonus. Our audit scope included the grants shown in Table 4-1.

Table 4-1
Grant Expenditures
Fiscal Years 2000 through 2003

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
State Soldier Assistance Grants	\$1,091,189	\$1,666,854	\$1,335,432	\$1,639,568
Vinland National Center	261,090	287,990	275,000	143,550
Cemetery Improvement	0	2,520,009	0	0

Source: Minnesota Accounting and Procurement System (MAPS) based on the budgetary basis as of June 30, 2003.

State Soldier Assistance Program

The State Soldier Assistance Program assists Minnesota veterans and/or their dependents in securing subsistence, optical, dental, and clothing benefits. Subsistence benefits provide short-term (six months or less) emergency financial assistance to meet the daily needs of applicants who are disabled and unable to pursue their normal occupation. The program also provides optical and dental benefits according to the Department of Human Services' fee schedules. The program limits optical and dental benefits to once per year. With the exception of clothing benefits, applicants must meet income and asset guidelines to receive assistance under the program. Generally, clothing allowances are for the applicant's children who live in the household and are attending school. Adult applicants may only receive clothing benefits as a result of a catastrophic loss.

Department of Veterans Affairs

Grants to Vinland National Center

During the audit period, the Legislature appropriated \$275,000 annually to the Vinland National Center (Vinland). The department acts as the fiscal agent for the Vinland grant funds and entered into grant agreements with Vinland to implement a program for disabled Minnesota veterans who have not responded to traditional rehabilitation services. Due to budget cuts during fiscal year 2003, the department discontinued the grant on February 6, 2003, after disbursing \$143,550.

Cemetery Improvement Grant

In fiscal year 2001, the department began its application process for a federal cemetery improvement grant. During fiscal year 2002, the U.S. Department of Veterans Affairs awarded a grant to the department for improvements to the Minnesota State Veterans Cemetery in Little Falls. The grant was 100 percent federally funded and used to provide roads, an assembly area, and the installation of nearly 2,000 preplaced grave lines or crypts. The Department of Administration was responsible for overseeing the construction and site improvement and providing the Department of Veterans Affairs with the cost information for requests for federal reimbursement of expenditures. All project expenditures were coded to budget fiscal year 2001.

Audit Objectives and Methodology

Our review of the Department of Veterans Affairs grant programs focused on the following questions:

- Did the department accurately record grant expenditures in the accounting systems?
- Did the department comply with material finance-related legal provisions?

To answer these questions, we interviewed department staff to gain a general understanding of the internal control structure over the grant programs, analyzed the grant expenditures to determine unusual trends, and reviewed supporting documentation to ensure accurate recording in the accounting system and compliance with laws and statutes.

Conclusion

The Department of Veterans Affairs accurately recorded grant expenditures in the accounting system. For the items tested, the department complied with finance-related legal provisions related to the State Soldiers Assistance Program, the Vinland National Center, and Cemetery Improvement grant programs.

Status of Prior Audit Issues As of August 29, 2003

Most Recent Audit

Legislative Audit Report 00-16, issued May 2000, covered the period from July 1, 1996, to December 31, 1999. This report included a review of the design and implementation of internal controls related to guardianship revenues and expenditures, payroll expenditures, and grants. This report contained three findings. The first finding related to inadequate documentation to support certain guardianship expenditures. This finding has been resolved. The second finding noted that the County Veterans Service Officer Operational Improvement Grant funds were not used for training of county veterans service officers. The finding is no longer valid as a result of subsequent legislation. The third finding stated that the department did not request the full veteran cemetery grant from the U.S. Department of Veterans Affairs. The department subsequently requested and received the funding it had earned.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as Metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.