

## Department of Veterans Affairs

### Financial Audit

July 1, 1994 through December 31, 1996

April 1997

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

97-20





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Bernard Melter, Commissioner  
Department of Veterans Affairs

We have audited the Department of Veterans Affairs for the period July 1, 1994, through December 31, 1996, as further explained in Chapter 1. Our audit scope included guardianship revenues and expenditures, payroll expenditures, State Soldiers Assistance Program expenditures, County Veterans Service Officer Grants, and other grant programs. The following summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

We conducted our audit in accordance with generally accepted auditing standards and *Governmental Auditing Standards*, as issued by the Comptroller of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also 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 of Veterans Affairs is responsible for establishing and maintaining the internal control structure and ensuring compliance 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 April 18, 1997.

A handwritten signature in cursive script, reading "James R. Nobles".

James R. Nobles  
Legislative Auditor

A handwritten signature in cursive script, reading "John Asmussen".

John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: March 11, 1997

Report Signed On: April 11, 1997



# SUMMARY

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## Department of Veterans Affairs

### Financial Audit

July 1, 1994 through December 31, 1996

Public Release Date: April 18, 1997

No. 97-20

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#### Background

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 War, the Vietnam War, the Southwest Asia (Persian Gulf) War and other conflicts. The department is organized into three program areas: state benefits and grants, services, and departmental operations. These program areas give assistance to eligible veterans and their dependents. In addition, the departmental operations program provides administrative services for the department. Mr. Bernie Melter serves as the commissioner.

#### Audited Areas and Conclusions

Our audit objectives were to gain an understanding of the Department of Veterans' Affairs' internal control structure over the accounting and reporting of its financial activities, including its guardianship program revenues and expenditures, payroll expenditures, State Soldiers Assistance Program expenditures, County Veterans Service Officer Grants, and grants to nongovernmental organizations. We also designed our audit to provide reasonable assurance that the Department of Veterans Affairs complied with significant finance-related legal provisions.

The Department of Veterans Affairs designed and implemented internal controls that provided reasonable assurance that guardianship revenues and expenditures, payroll and grant expenditures were accurately reported in the accounting records and that guardianship expenditures were appropriate and properly authorized.

Guardianship revenues and expenditures tested were accurately reported in the accounting records and posted to individual client accounts. In addition, guardianship expenditures tested were appropriate, properly authorized and adequately supported. We noted, however, that the department allocated investment income to client accounts based on an incorrect amount provided by the Department of Finance.

Payroll transactions tested, including employee timesheets, were properly authorized and accurately recorded in the accounting records. In addition, the department used appropriate pay rates when calculating payments to staff. However, we found that two employees have incompatible access to both payroll and personnel functions in SEMA4.

Expenditures tested from the State Soldiers Assistance Program and the Vinland National Center grant were adequately supported and made to or on behalf of eligible clients. In addition, for the expenditures tested, the department complied with applicable legal provisions when awarding and disbursing grant funds.



## Department of Veterans Affairs

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### Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Thomas Donahue, CPA	Audit Manager
Susan Rumpca, CPA	Auditor-in-Charge
Fubara Dapper, CPA	Auditor
Laura Dombeck	Auditor

### Exit Conference

We discussed the findings and recommendations with the following staff of the Department of Veterans Affairs at an exit conference held on April 3, 1997:

Bernard R. Melter	Commissioner
Jeffrey L. Olson	Deputy Commissioner
Terrence Logan	Director of Veterans Programs
Dennis Forsberg	Director of Veterans Services
Kathleen Schwartz	Financial Management





# Department of Veterans Affairs

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## Chapter 1. Introduction

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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 War, the Vietnam War, the Southwest Asia (Persian Gulf) War and other conflicts. Mr. Bernard Melter serves as the commissioner.

The department is organized into three program areas: state benefits and grants, services, and departmental operations. The state benefits and grants program assists Minnesota veterans and their dependents in securing subsistence, emergency medical, optical and dental benefits under the State Soldiers Assistance Program. The Vinland National Center activity provides rehabilitation services to veterans to assist them in their transition into mainstream society. The County Veterans Service Officer (CVSO) Operational Improvement Grant program provides grants to CVSO offices to assist them with the purchase of equipment to provide improved services to veterans and their dependents. Grant funds are also used to provide increased training and educational opportunities to CVSOs. The education and grants activity provides grants to eligible veterans and children of deceased or disabled veterans.

The services program includes the administration of guardianship accounts and the operation of two claims offices. The Guardianship Program provides financial management services to veterans and their dependents who have been adjudicated to be incompetent to handle their own financial matters. The claims offices provide assistance to veterans and their dependents with claims for federal veterans benefits. The offices provide help at all levels of the claims process.

The departmental operations program is responsible for all human resources, purchasing and accounting functions for the department. In addition, this program manages developmental and maintenance aspects of the State Veterans Cemetery, which was established by the 1994 Legislature. The department received a federal grant in fiscal year 1997 to construct a storage/maintenance building, finish roadways, fence the property, and partially irrigate the cemetery.

## Department of Veterans Affairs

The following table summarizes the financial activities of the department for the period July 1, 1995 through June 30, 1996:

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**Table 1-1**  
**Department of Veterans Affairs Financial Activities**  
**Year Ended June 30, 1996**

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State Appropriation	\$3,832,000
Revenue	
Guardianship deposits	\$1,551,304
Interest on investments (1)	113,838
Other	<u>44,717</u>
Total	<u>\$1,709,859</u>
Expenditures	
Full-time payroll (including fringe benefits)	\$1,278,919
Guardianship	1,547,244
State Soldiers Assistance Program	862,539
Grants to non governmental organizations	281,200
County Veterans Service Officer Grants	161,044
Other	421,624
Total	<u>\$4,552,570</u>

- (1) See finding 1 in Chapter 2, which discusses the incorrect interest income allocated to client accounts. The Department of Finance has not yet determined the final interest amount to be allocated. In addition, this number does not contain the June interest income, which was allocated to the department in July and August 1996.

Source: MAPS accounting system as of June 30, 1996.

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## Chapter 2. Guardianship Revenues and Expenditures

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### *Chapter Conclusions*

*The Department of Veterans Affairs designed and implemented internal controls that provided reasonable assurance that guardianship revenues and expenditures were accurately reported in the accounting records and that guardianship expenditures were appropriate and properly authorized. Guardianship revenues and expenditures tested were accurately reported in the accounting records and posted to individual client accounts. In addition, guardianship expenditures tested were appropriate, properly authorized and adequately supported. We noted, however, that the department allocated investment income to client accounts based on an incorrect amount provided by the Department of Finance.*

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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 of Veterans Affairs has the most authority over ward accounts and the least authority over payee accounts. The courts, the United States Department of Veterans Affairs or other agencies decide into which category it will place the client.

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

The department deposits client funds in the state treasury, where they are invested by the State Board of Investment. Interest earnings accrue to the individual clients' accounts. As of December 31, 1996, the department managed the estates of 113 clients. The average number of clients has fluctuated between 112 and 134. The department collects and expends about \$1.6 million on behalf of clients each year.

# Department of Veterans Affairs

## Audit Objective and Methodology

We focused on the following objective during our audit of the guardianship program:

- Did the Department of Veterans Affairs design and implement internal controls to provide reasonable assurance that guardianship revenues and expenditures were accurately reported in the accounting records and that guardianship expenditures were appropriate and properly authorized?

To meet this objective, we interviewed agency staff to gain an understanding of management controls over the guardianship receipt and expenditure processes. We selected a sample of client revenues and traced the revenues to the accounting system and client accounts. We also tested a sample of expenditures to determine if the department properly authorized, adequately supported and accurately recorded guardianship expenditures.

## Conclusions

We found that the Department of Veterans Affairs designed and implemented internal controls that provided reasonable assurance that guardianship revenues and expenditures were accurately reported in the accounting records and that guardianship expenditures were appropriate and properly authorized. Guardianship revenues and expenditures tested were accurately reported in the accounting records and posted to individual client accounts. In addition, guardianship expenditures tested were appropriate, properly authorized and adequately supported. However, as explained in Finding 1, the department allocated investment income to client accounts based on an incorrect amount provided by the Department of Finance.

### **1. The Department of Veterans Affairs allocated investment income to client accounts based on an incorrect amount.**

Prior to the state's conversion to the Minnesota Accounting and Procurement System (MAPS) in July 1995, the department allocated interest income to client accounts each month based on monthly reports from Finance. After the conversion to MAPS, Finance had difficulty calculating interest income for the various accounts in the state. It reported interest income of \$125,484 for fiscal year 1996 to the Department of Veterans Affairs on November 17, 1996. The department then allocated this interest income to client accounts on December 4, 1996. However, Finance later discovered that the interest income reported to the Department of Veterans Affairs was incorrect. As of March 6, 1997, Finance has not determined the correct interest income for the Department of Veterans Affairs. As a result, client financial activity reported during the annual accounting to the courts, United States Department of Veterans Affairs or the Social Security Administration may be incorrect for some client accounts.

### *Recommendation*

- *The Department of Veterans Affairs should work with the Department of Finance to obtain the correct interest income for fiscal year 1996.*

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## Chapter 3. Payroll Expenditures

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### *Chapter Conclusions*

*The Department of Veterans Affairs designed and implemented internal controls that provided reasonable assurance that payroll expenditures were properly authorized and accurately recorded in the accounting records. Payroll transactions tested, including employee timesheets, were properly authorized and accurately recorded in the accounting records. In addition, for employees reviewed, the department used appropriate pay rates when calculating payments to staff. However, we found that two employees have incompatible access to both payroll and personnel functions in SEMA4.*

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Payroll expenditures are the second largest expenditure category for the Department of Veterans Affairs. The department spent about \$1.3 million on payroll expenditures each year. The department converted from the Payroll Personnel System (PPS) to SEMA4 on December 13, 1995. The department's accounting staff process payroll through SEMA4 on a biweekly basis.

### **Audit Objective and Methodology**

We focused on the following objective during our audit of payroll:

- Did the Department of Veterans Affairs design and implement internal controls to provide reasonable assurance that payroll expenditures were properly authorized and accurately recorded in the accounting records?

To meet this objective, we interviewed accounting staff to gain an understanding of management controls over the payroll process. We tested a sample of payroll transactions to determine if the department properly authorized, adequately supported and accurately recorded payroll.

### **Conclusions**

We found that the Department of Veterans Affairs designed and implemented internal controls that provided reasonable assurance that payroll expenditures were properly authorized and accurately recorded in the accounting records. Payroll transactions tested, including employee timesheets, were properly authorized and accurately recorded in the accounting records. In addition, for the employees reviewed, the department used appropriate pay rates when calculating payments to staff. However, we found that two employees have incompatible access to both payroll and personnel functions in SEMA4 as explained in finding 2.

## Department of Veterans Affairs

### **2. Two employees have incompatible access to both payroll and personnel functions in SEMA4.**

Two employees of the Department of Veterans Affairs have access to update data in both the payroll and personnel functions in SEMA4. The personnel and payroll functions are separate, incompatible functions. Generally, employees performing payroll functions should not have the authority to update personnel records. When an individual has authority to perform both functions, the risk of errors and irregularities increases.

Incompatible duties creates an increased risk that errors or irregularities could go undetected. It is preferable to separate the personnel and payroll functions between individuals. However, the department could add an additional control to identify any errors or irregularities. This would involve having an employee who is not involved in either payroll or personnel processing review and approve the payroll register (a report which lists the hourly rates and hours worked).

#### *Recommendation*

- *The Department of Veterans Affairs should either limit access to the appropriate segments of SEMA4 or have another individual review the SEMA4 reports for accuracy.*

# Department of Veterans Affairs

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## Chapter 4. Grants

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### *Chapter Conclusions*

*The Department of Veterans Affairs designed and implemented internal controls that provided reasonable assurance that grant expenditures were properly authorized and accurately reported in the accounting records. Expenditures tested from the State Soldiers Assistance Program and the Vinland National Center grant were adequately supported and made to or on behalf of eligible clients. In addition, for the expenditures tested, the department complied with applicable legal provisions when awarding and disbursing grant funds.*

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The Department of Veterans Affairs gave grants under the State Soldiers Assistance Program, the County Veterans Service Officer Operational Improvement Grant Program and the Education Grant Program during the audit period. During this time, the department also granted funds to the Vinland National Center, the Vietnam Veterans of America and the Women in Military Service Memorial. Our audit scope included all grants except education grants.

### **State Soldiers Assistance Program**

The State Soldiers Assistance Program (SSAP) assists Minnesota veterans and/or their dependents in securing subsistence, optical, dental and emergency medical 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. SSAP provides optical, dental and emergency medical benefits according to the Department of Human Services' fee schedules. The program limits optical and dental benefits to once per year. Applicants must meet income and asset guidelines to receive assistance under SSAP.

### **County Veterans Service Officer Operational Improvement Grant Program**

The County Veteran Service Officer (CVSO) Operational Improvement Grant Program provides grants to CVSO offices to help them purchase equipment to improve the delivery of services to veterans and their dependents. CVSOs can use grant funds to purchase computers, computer-related office equipment, computer software, and equipment training. CVSOs cannot use grant funds for normal operating expenses, such as supplies or salaries. They also cannot use the funds to purchase office equipment or furniture that is normally provided by the county.

The department awards grants on a first-come first-served basis to qualifying applicants. The department gives priority to counties which did not receive a grant the previous year. In addition, the department awards grants to only one-half of the counties in each of the four veteran population categories. Grant amounts may not exceed the lesser of the amount specified in the

## **Department of Veterans Affairs**

application or the amount specified in the statutes. The statutory amount is based on the county's veterans population as determined by the United States Department of Veterans Affairs.

This program began when the 1993 Legislature appropriated \$310,000 for the 1994-95 biennium. The appropriation did not specify if the funds were for one fiscal year or two. The 1994 Legislature appropriated another \$75,000 for the program for fiscal year 1995. By the time the department wrote procedures, revised procedures, advertised the grants and received grant applications, fiscal year 1994 was nearly over. Therefore, the department expended all grant funds in fiscal year 1995.

### **Grants to Vinland National Center and Other Nongovernmental Organizations**

During the audit period, the Department of Veterans Affairs granted over \$625,000 to non governmental organizations. As specified in state law, the department contributed \$16,200 toward the women in military service memorial at the entrance to Arlington National Cemetery. The department also granted \$30,000 to fund a program of the Minnesota state council of the Vietnam Veterans of America according to state law. This program assists Vietnam veterans and Vietnam-era veterans in preparing and presenting disability claims to the United State government.

The Legislature appropriated \$250,000 annually to the Vinland National Center (Vinland) during the audit period. Although the department had no discretion in selecting Vinland, it entered into a grant agreement with Vinland to implement a program to rehabilitate disabled Minnesota veterans who have not responded to traditional rehabilitation services. The grant agreement specified that the department will pay the Vinland National Center \$6,199 each month for the salary and fringe benefit costs of a Veterans Outreach Worker (1.0 FTE), a Vocational Counselor (1.0 FTE), and a Vocational Evaluator (.25 FTE). The department paid Vinland this amount each month, even if no veterans attended the program that month. In addition, the grant agreement specified that the department pay Vinland \$5,000 for each eligible client attending a three week program. Based on the number of clients served, Vinland received the full appropriated amount.

### **Audit Objective and Methodology**

We focused on the following objective during our audit of the grant programs:

- Did the Department of Veterans Affairs design and implement internal controls to provide reasonable assurance that grant expenditures were properly authorized and accurately reported in the accounting records?

To meet this objective, we interviewed agency staff to gain an understanding of management controls over the process used when awarding and disbursing grant funds. We tested a sample of expenditures from the grants to determine if the department properly authorized the expenditures and accurately reported them in the accounting records. We tested a sample of expenditures from the State Soldiers Assistance Program and the Vinland National Center grant to determine if all expenditures were to or on behalf of eligible clients only. We also tested to determine if the



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department followed the applicable legal provisions when awarding and disbursing grant funds. Finally, we determined if the department obtained adequate support for the grant expenditures.

## **Conclusions**

We found that the Department of Veterans Affairs designed and implemented internal controls that provided reasonable assurance that grant expenditures were properly authorized and accurately reported in the accounting records. Expenditures tested from the State Soldiers Assistance Program and the Vinland National Center grant were adequately supported and made to or on behalf of eligible clients. In addition, for the expenditures tested, the department complied with applicable legal provisions when awarding and disbursing grant funds.



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**Bernie Melter**  
Commissioner

April 9, 1997

James R. Nobles  
Legislative Auditor  
Office of the Legislative Auditor  
Centennial Building  
658 Cedar Street  
St. Paul, MN 55155-4708


Dear Mr. Nobles:


On March 11, 1997 the Office of the Legislative Auditor completed their audit of the Department of Veterans Affairs (Department) for the period July 1, 1994 through December 31, 1996. The audit team thoroughly reviewed all activities within the department and has concluded that improvements in procedures are needed in two areas.

Prior to providing our response to these conclusions we would like to state that during the course of the audit significant communications took place between the audit team and department employees that contributed to a successful audit process. We believe that the positive attitudes of the audit team allowed everyone to work together developing sound principles and policies that ensure that appropriate management controls are in place throughout the department.

Our response to the conclusions and recommendations follow on the attached page.

Sincerely,

  
Bernard R. Melter  
Commissioner

  
Jeffrey L. Olson  
Deputy Commissioner

**Page 2**  
**Department of Veterans Affairs**  
**Audit Response**  
**April 2, 1997**

The conclusions and recommendations of the audit team are restated below with the departments responses immediately thereafter:

**Conclusion 1.** The Department of Veterans Affairs allocated investment income to client accounts based on an incorrect amount which was provided by the Department of Finance.  
*Recommendation: The Department of Veterans Affairs should work with the Department of Finance to obtain the correct interest income for fiscal year 1996.*

**Response:** The Department of Veterans Affairs will work with the Department of Finance to obtain the correct interest income for fiscal year 1996 and make appropriate adjustments to all guardian accounts and reports.

**Conclusion 2.** Two employees have incompatible access to both payroll and personnel functions in SEMA4.

*Recommendation: The Department of Veterans Affairs should either limit access to the appropriate segments of SEMA4 or have another individual review the SEMA4 reports for accuracy.*

**Response:** The department assigned another employee the duties of reviewing SEMA4 reports for accuracy. This employee has no access to SEMA4 payroll and/or personnel functions. This action was completed on March 19, 1997.