

PERFORMANCE AUDIT
OF THE
MICHIGAN VETERANS TUITION GRANT PROGRAM AND
STATE EDUCATION REIMBURSEMENT PROGRAM

DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

February 2004

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

Audit report information may be accessed at:
<http://www.state.mi.us/audgen/>



Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

*Michigan Veterans Tuition Grant Program and
 State Education Reimbursement Program
 Department of Military and Veterans Affairs*

Report Number:
 51-400-03

Released:
 February 2004

The Department of Military and Veterans Affairs is responsible for administering State-regulated veterans services and training the Michigan National Guard to ensure military preparedness to assist both federal and State authorities. The Department administers the Michigan Veterans Tuition Grant Program (MVTGP) and the State Education Reimbursement Program (SERP). These programs provide tuition assistance to children of eligible Michigan veterans and to members of the Michigan National Guard.

Audit Objective:

To assess the effectiveness of the Department of Military and Veterans Affairs' administration of MVTGP and SERP.

~ ~ ~ ~ ~

Audit Conclusion:

The Department was generally effective in administering MVTGP and SERP.

~ ~ ~ ~ ~

Reportable Conditions for MVTGP:

1. Tuition Payments
 The Michigan Veterans' Trust Fund did not ensure that all MVTGP tuition payments were for eligible students (Finding 1).

2. Determination of Eligibility
 The Michigan Veterans' Trust Fund did not consistently determine eligibility for MVTGP benefits for students who withdrew from classes in compliance with applicable statutes (Finding 2).

3. Tuition Payment Reconciliation

The Michigan Veterans' Trust Fund did not reconcile its MVTGP database with the official State accounting records maintained in the Michigan Administrative Information Network (MAIN). In addition, the Trust Fund did not retain documentation supporting information reported in the annual reports submitted to the Senate and House Appropriations Subcommittees. (Finding 3)

~ ~ ~ ~ ~

Reportable Conditions for SERP:

1. Tuition Reimbursement Payments
 SERP should improve its review and retention of supporting documentation to ensure that tuition reimbursement payments are made in accordance with rules and statutory requirements (Finding 4).

2. Tuition Reimbursement Payment Reconciliation

SERP did not periodically reconcile tuition reimbursement payments maintained in the SERP database with the official State accounting records maintained in MAIN (Finding 5).

~ ~ ~ ~ ~

Agency Response:

The Department's preliminary response indicated that the Michigan Veterans' Trust Fund and the State Education Office have complied or will comply with all of the recommendations.

~ ~ ~ ~ ~

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: www.state.mi.us/audgen/



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General



STATE OF MICHIGAN
OFFICE OF THE AUDITOR GENERAL
201 N. WASHINGTON SQUARE
LANSING, MICHIGAN 48913
(517) 334-8050
FAX (517) 334-8079

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

February 3, 2004

Major General Thomas G. Cutler, Director
Department of Military and Veterans Affairs
2500 South Washington Avenue
Lansing, Michigan

Dear General Cutler:

This is our report on the performance audit of the Michigan Veterans Tuition Grant Program and the State Education Reimbursement Program, Department of Military and Veterans Affairs.

This report contains our report summary; description of agency; audit objective, scope, and methodology and agency responses; comment, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during the audit.

AUDITOR GENERAL

This page left intentionally blank.

TABLE OF CONTENTS

MICHIGAN VETERANS TUITION GRANT PROGRAM AND STATE EDUCATION REIMBURSEMENT PROGRAM DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
Description of Agency	6
Audit Objective, Scope, and Methodology and Agency Responses	7
COMMENT, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES	
Effectiveness of the Administration of the Michigan Veterans Tuition Grant Program and the State Education Reimbursement Program	9
1. Tuition Payments	9
2. Determination of Eligibility	11
3. Tuition Payment Reconciliation	13
4. Tuition Reimbursement Payments	14
5. Tuition Reimbursement Payment Reconciliation	16
GLOSSARY	
Glossary of Acronyms and Terms	18

Description of Agency

The Department of Military and Veterans Affairs is responsible for administering State-regulated veterans services and training the Michigan National Guard* to ensure military preparedness to assist both federal and State authorities.

Act 245, P.A. 1935, established the Michigan Veterans Tuition Grant Program (MVTGP) to provide educational opportunities for the children of certain members of the armed forces of the United States. MVTGP is designed to assist any child, between the ages of 16 and 25, who has been a resident of the State for the preceding 12 months and who is the legal child of a Michigan veteran* who was killed, died as a result of service-connected disabilities, is rated 100% disabled because of injuries sustained while in the armed forces of the United States, or is officially listed as missing in action in a foreign country. MVTGP provides the child, upon admission to a Michigan institution, a tuition waiver up to \$2,800 annually for maintaining full-time attendance and a cumulative grade point average of 2.25 or better on a 4.0 scale.

MVTGP is funded from the surplus and earnings of the Michigan Veterans' Trust Fund. MVTGP had tuition grant expenditures of \$1,106,624 for payments on behalf of 484 students for the fiscal year ended September 30, 2002.

Annual appropriations acts for the Department of Military and Veterans Affairs provide an appropriation for the establishment of the State Education Reimbursement Program (SERP). SERP is designed to offset 50% of tuition costs, up to \$2,000 per academic year, for members of the Michigan National Guard who enroll in courses at colleges or universities in Michigan. Michigan National Guard members must be in good standing and maintain a cumulative grade point average of 2.0 or better on a 4.0 scale.

SERP is funded with State General Fund/general purpose appropriations. SERP had tuition reimbursement expenditures of \$1,332,471 for payments to 1,101 students for the fiscal year ended September 30, 2002, and SERP had two full-time employees as of September 30, 2002.

* See glossary at end of report for definition.

Audit Objective, Scope, and Methodology and Agency Responses

Audit Objective

The objective for our performance audit* of the Michigan Veterans Tuition Grant Program (MVTGP) and State Education Reimbursement Program (SERP), Department of Military and Veterans Affairs, was to assess the effectiveness* of the Department's administration of MVTGP and SERP.

Audit Scope

Our audit scope was to examine the program and other records of the Michigan Veterans Tuition Grant Program and State Education Reimbursement Program. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures, performed during the period May through August 2003, included an examination of MVTGP and SERP records primarily for the period October 1, 1999 through September 30, 2002. Our audit methodology included a preliminary review of the processes developed by the Department to administer MVTGP and SERP. Our preliminary review included interviews and discussions with both programs' staff regarding their functions and responsibilities and an examination of policies and procedures, applicable laws, and appropriations acts.

To accomplish our objective, we reviewed the supporting documentation from samples of student files to determine that tuition payments for each program were made in accordance with applicable laws and policies and procedures. Additionally, we analyzed tuition payment data from program databases to determine if information for tuition payments was accurate, complete, and reconcilable to the official State accounting records.

* See glossary at end of report for definition.

Agency Responses

Our audit report contains 5 findings and 5 recommendations. The Department's preliminary response indicated that the Michigan Veterans' Trust Fund and the State Education Office have complied or will comply with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of Military and Veterans Affairs to develop a formal response to our audit findings and recommendations within 60 days after release of audit report.

COMMENT, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF THE ADMINISTRATION OF THE MICHIGAN VETERANS TUITION GRANT PROGRAM (MVTGP) AND THE STATE EDUCATION REIMBURSEMENT PROGRAM (SERP)

COMMENT

Audit Objective: To assess the effectiveness of the Department of Military and Veterans Affairs' administration of MVTGP and SERP.

Conclusion: We concluded that the Department was generally effective in administering MVTGP and SERP. However, our audit disclosed five reportable conditions*. Three of the reportable conditions related to MVTGP tuition payments, determination of eligibility, and tuition payment reconciliation and two reportable conditions related to SERP tuition reimbursement payments and tuition reimbursement payment reconciliation.

FINDING

1. Tuition Payments

The Michigan Veterans' Trust Fund did not ensure that all MVTGP tuition payments were for eligible students.

We reviewed 33 files of the 734 students on whose behalf MVTGP made payments during fiscal years 1999-2000, 2000-01, and 2001-02. During that period, MVTGP made 114 tuition payments on behalf of the 33 students. Our review disclosed:

- a. The Trust Fund made 2 payments totaling \$721 for students who were ineligible because they were not full time.
- b. The Trust Fund made 1 payment of \$1,496 for a student who exceeded the 36-month limitation of full-time equated college undergraduate education.

* See glossary at end of report for definition.

- c. The Trust Fund did not retain supporting documentation that students met grade point average requirements for 21 payments totaling \$30,769.
- d. The Trust Fund did not retain supporting documentation that the student's legal parent was a qualifying veteran for 10 payments totaling \$11,625.

Section 35.111 of the *Michigan Compiled Laws* provides for tuition assistance for the children of qualifying Michigan veterans. Section 35.111(5) provides that eligible persons admitted to a Michigan institution after October 1, 1996 shall not be required to pay the first \$2,800 per year of tuition or any other fee which takes the place of tuition during the time the person is a full-time undergraduate student. Section 35.111(2) provides that an eligible person's attendance at an institution located in this State shall not exceed 36 months of full-time equated college undergraduate education.

Michigan Administrative Code R 35.652 provides that eligible persons who fail to achieve a cumulative grade point average of 2.25 shall be placed in probationary status for 1 term or semester and that benefits shall be terminated for persons who fail to achieve a cumulative grade point average of 2.25 at the close of the probationary period.

The Trust Fund provides to both the students eligible to receive tuition payments and the institution being attended a letter of eligibility that provides the authority for billing up to \$2,800 per year of tuition and fees to MVTGP. The Trust Fund, upon receipt of a tuition bill, requests that the institution certify the semester grade point averages and cumulative grade point averages and explain zero grades of eligible persons attending the institution on a form supplied by the Trust Fund.

Improving the MVTGP review process would help identify errors and ensure that tuition payments are made in accordance with rules and statutory requirements. Also, retaining applicant eligibility documentation would help demonstrate that tuition payments were made in compliance with established rules.

RECOMMENDATION

We recommend that the Michigan Veterans' Trust Fund ensure that all MVTGP tuition payments are for eligible students.

AGENCY PRELIMINARY RESPONSE

The Trust Fund agrees with this recommendation and informed us that it has complied.

FINDING

2. Determination of Eligibility

The Michigan Veterans' Trust Fund did not consistently determine eligibility for MVTGP benefits for students who withdrew from classes in compliance with applicable statutes.

Our review of the administration of MVTGP disclosed that the Trust Fund used different methods of determining MVTGP eligibility for students who withdrew from classes:

- a. In one case, the Trust Fund required a previously eligible student who requested MVTGP reinstatement to provide a certified transcript of a cumulative grade point of 2.25 or above. The Trust Fund recalculated the student's cumulative grade point average for classes indicated on the transcript as having been withdrawn from by the student. The Trust Fund's recalculation included the credit hours for withdrawn classes because the educational institution's policy was to exclude those credits in calculating the student's cumulative grade point average. However, the Trust Fund did not obtain documentation to determine whether the student withdrew from classes for the express purpose of manipulating his or her cumulative grade point average as required per *Michigan Administrative Code R 35.652*.
- b. In a second case, the Trust Fund requested that the educational institution certify the current grade point average and cumulative grade point average and explain zero grades of the eligible student to determine the student's eligibility to receive tuition payment benefits. The Trust Fund made no attempt to determine the reason for withdrawn classes, did not recalculate the student's grade point average, and did not request a response from the educational institution indicating why the student had withdrawn from classes.
- c. In a third case, the Trust Fund suspended a student who withdrew from all classes and from MVTGP benefits. The Trust Fund required the suspended

student to submit an explanation for the withdrawals to determine whether the withdrawals were for the express purpose of manipulating the student's cumulative grade point average.

Section 35.111 of the *Michigan Compiled Laws* provides for tuition assistance for the children of qualifying Michigan veterans.

Michigan Administrative Code R 35.652 provides that eligible persons who fail to achieve a cumulative grade point average of 2.25 shall be placed in probationary status for one term or semester and that benefits shall be terminated for persons who fail to achieve a cumulative grade point average of 2.25 at the close of the probationary period. Also, students shall not fail to attend, withdraw from, or drop a class for the express purpose of manipulating the cumulative grade point for continuation of benefits.

Michigan Administrative Code R 35.652a provides that previously eligible persons can petition the Michigan Veterans' Trust Fund Board of Trustees to be reinstated to MVTGP by submitting a certified transcript verifying a cumulative grade point average of 2.25 or above and a statement from a department counselor or advisor containing a realistic appraisal of the student's ability to complete his or her program at a level of progress to remain eligible for MVTGP benefits.

The lack of a process that consistently determines student eligibility for MVTGP benefits in compliance with applicable statutes increases the risk that tuition payments are made on behalf of ineligible students.

RECOMMENDATION

We recommend that the Michigan Veterans' Trust Fund consistently determine eligibility for MVTGP benefits for students who withdraw from classes in compliance with applicable statutes.

AGENCY PRELIMINARY RESPONSE

The Trust Fund agrees with this recommendation and will comply immediately, using the same process to determine eligibility for benefits for every student who withdraws from classes to meet applicable statutes.

FINDING

3. Tuition Payment Reconciliation

The Michigan Veterans' Trust Fund did not reconcile its MVTGP database with the official State accounting records maintained in the Michigan Administrative Information Network* (MAIN) and did not retain documentation supporting information reported in the annual reports submitted to the Senate and House Appropriations Subcommittees.

We compiled the payments from the MVTGP database and compared the amounts to the payments per MAIN and the annual reports:

<u>Fiscal Year</u>	<u>Payments per MVTGP Database</u>	<u>Payments per MAIN</u>	<u>Payments per Annual Report</u>
1999-2000	\$823,305	\$ 994,779	\$967,999
2000-01	\$910,718	\$ 931,368	\$874,808
2001-02	\$950,368	\$ 1,106,624	\$992,828

Periodic reconciliation of the MVTGP database with MAIN would provide an opportunity to identify errors and irregularities in the database and accounting records. In addition, retention of supporting documentation used to create the annual reports would help ensure the accuracy and integrity of the information reported by the Trust Fund.

Annual appropriations acts for the Department of Military and Veterans Affairs have required that an annual report be submitted to the Senate and House Appropriations Subcommittees on Military Affairs. The report is to contain MVTGP information, including the number of participants, where the participants attended school, payments made to each school, the average grade point and number of college credits earned by each participant, the number of participants suspended by MVTGP, and the number of participants who earned a degree during the previous fiscal year.

The Trust Fund established an MVTGP database to record, track, and maintain information of tuition assistance given to eligible persons. In addition, the Trust Fund used the database to prepare the annual reports it is required to submit to the

* See glossary at the end of report for definition.

Senate and House Appropriations Subcommittees on Military Affairs. The Trust Fund staff manually counted the information from the database to prepare the annual reports and could not provide supporting documentation for the amounts included in the legislative reports.

RECOMMENDATION

We recommend that the Michigan Veterans' Trust Fund reconcile its MVTGP database with the official State accounting records maintained in MAIN and retain documentation supporting information reported in the annual reports submitted to the Senate and House Appropriations Subcommittees.

AGENCY PRELIMINARY RESPONSE

The Trust Fund agrees with this recommendation and will comply by reconciling the MVTGP database monthly with MAIN and retaining the dated supporting documents for annual reports submitted to the Senate and House Appropriations Subcommittees.

FINDING

4. Tuition Reimbursement Payments

SERP should improve its review and retention of supporting documentation to ensure that tuition reimbursement payments are made in accordance with rules and statutory requirements.

We reviewed 33 files of the 1,904 Michigan National Guard members who received tuition reimbursement payments during fiscal years 1999-2000, 2000-01, and 2001-02. During that period, SERP made 102 tuition reimbursements to the 33 students. Our review disclosed:

- a. Tuition reimbursement payments exceeded 50% of the actual tuition costs by a total of \$1,117 for 9 (9%) of 102 tuition reimbursement payments.
- b. Tuition reimbursement payments were less than 50% of the actual tuition costs by a total of \$49 for 3 (3%) of 102 tuition reimbursement payments.

- c. Supporting documentation for tuition reimbursement payments totaling \$9,675 was not available for 20 (20%) of 102 tuition reimbursement payments:
 - (1) Applications and documentation of unit representative signatures were missing for 3 tuition reimbursement payments.
 - (2) An initialed and signed statement of understanding* was missing for 2 tuition reimbursement payments.
 - (3) Supporting documentation of a cumulative grade point average of 2.0 or better was missing for 10 tuition reimbursement payments.
 - (4) Documentation of a tuition bill was missing for 1 tuition reimbursement payment.
 - (5) Documentation supporting the SERP's calculation of tuition reimbursement payments was missing for 4 tuition reimbursement payments.

- d. A tuition reimbursement payment of \$679 to a Michigan National Guard member was inadvertently not processed, even though SERP had obtained the required supporting documentation.

Tuition reimbursement payments to Michigan National Guard members are limited to \$2,000 per academic year. Annual appropriations acts for the Department of Military and Veterans Affairs and the Michigan Air and Army National Guard State Education Reimbursement Administrative Regulations and Procedures have required the following documentation to support tuition reimbursement payments:

- (a) Submission of a SERP application for each semester or term requested for reimbursement.

- (b) Signature of the Michigan National Guard member's unit representative on the application to verify that the member is in good standing with the Michigan Air National Guard or Michigan Army National Guard.

* See glossary at end of report for definition.

- (c) Submission of an initialed and signed statement of understanding.
- (d) Evidence of attendance and completion of a course of study at a Michigan college or university with a cumulative grade point average of 2.0 or better on a 4.0 scale.
- (e) Submission of the Michigan National Guard member's tuition bill.

Improving the SERP review process would help identify errors and ensure that tuition reimbursement payments are made in accordance with rules and statutory requirements. Also, retaining required documentation would help demonstrate that tuition reimbursement payments were made in compliance with established rules.

RECOMMENDATION

We recommend that SERP improve its review and retention of supporting documentation to ensure that tuition reimbursement payments are made in accordance with rules and statutory requirements.

AGENCY PRELIMINARY RESPONSE

The State Education Office agrees with this recommendation and informed us that it has complied.

FINDING

5. Tuition Reimbursement Payment Reconciliation

SERP did not periodically reconcile tuition reimbursement payments maintained in the SERP database with the official State accounting records maintained in MAIN.

Our case file review of 33 files for Michigan National Guard members who received a tuition reimbursement payment during fiscal years 1999-2000, 2000-01, and 2001-02 disclosed that 6 (6%) of 102 tuition reimbursement payments were underreported in the database by a total of \$3,973. Underreported payments in the database increased the risk that payments to individual guardsmen would exceed the \$2,000 academic year limitation.

Sound internal control would dictate that SERP perform a periodic reconciliation of the tuition reimbursement payments maintained in the database with records

maintained in MAIN. This reconciliation process would help identify errors and provide assurance of database accuracy and integrity.

SERP established its database to record, track, and maintain information of tuition reimbursements made to active Michigan Air National Guard or Michigan Army National Guard members attending a Michigan college or university. For example, SERP used the database to help ensure that reimbursements to individual guardsmen did not exceed the \$2,000 limitation per academic year established by annual appropriations acts for the Department of Military and Veterans Affairs and the Michigan Air and Army National Guard State Education Reimbursement Administrative Regulations and Procedures.

Periodic reconciliation of the data maintained in the SERP database with MAIN would provide an opportunity to identify errors and irregularities in the database and accounting records. Errors such as underreported reimbursement payments could be identified through periodic reconciliation and SERP could reduce the risk of being in noncompliance with SERP requirements.

RECOMMENDATION

We recommend that SERP periodically reconcile tuition reimbursement payments maintained in the SERP database with the official State accounting records maintained in MAIN.

AGENCY PRELIMINARY RESPONSE

The State Education Office agrees with this recommendation and informed us that it has complied. The Department of Military and Veterans Affairs developed a new database for SERP with manual reconciliation capability, which is accomplished monthly.

Glossary of Acronyms and Terms

effectiveness	Program success in achieving mission and goals.
Michigan Administrative Information Network (MAIN)	The State's fully integrated automated administrative management system that supports the accounting, payroll, purchasing, contracting, budgeting, personnel, and revenue management activities and requirements. MAIN consists of four major components: MAIN Enterprise Information System (EIS); MAIN Financial Administration and Control System (FACS); MAIN Human Resource System (HRS); and MAIN Management Information Database (MIDB).
Michigan National Guard	A community-based military service charged to be trained and ready to help the nation's full-time military, Army or Air Force, to defend the country and fight the nation's wars, as well as serving the citizens of Michigan in times of natural disasters and civil unrest and ensuring the safety and security of key facilities.
Michigan veteran	A person whose legal residence immediately before entering service was in this State or a veteran who establishes a legal residence in this State and does not leave the State for more than two years.
MVTGP	Michigan Veterans Tuition Grant Program.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.

reportable condition

A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

SERP

State Education Reimbursement Program.

**statement of
understanding**

A form completed by applicants to ensure that they acknowledge and are aware of critical information that could affect their participation in the State Education Reimbursement Program.