



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

“...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

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Report Number:
51-105-04

Veterans Affairs Directorate

Department of Military and Veterans Affairs

Released:
April 2005

The Veterans Affairs Directorate supervises and directs the D.J. Jacobetti and Grand Rapids Homes for Veterans. The Homes provide domiciliary care and nursing facility care to aged and disabled military veterans and widows, widowers, spouses, former spouses, and parents of State veterans. In addition, the Directorate and the Michigan Veterans' Trust Fund (MVTF) Board of Trustees manage the administrative functions of MVTF, which provides emergency grants to veterans and tuition grants to dependents of disabled or deceased veterans.

Audit Objective:

To assess the effectiveness of the D.J. Jacobetti and Grand Rapids Homes for Veterans in maximizing their cost reimbursements.

Audit Conclusion:

We concluded that the D.J. Jacobetti and Grand Rapids Veterans Homes for Veterans were moderately effective in maximizing their cost reimbursements.

Reportable Conditions:

The Veterans Affairs Directorate should continue to pursue Medicaid and Medicare certification to increase reimbursements from Medicaid and Medicare for nursing facility care at the D.J. Jacobetti and Grand Rapids Homes for Veterans (Finding 1).

The D.J. Jacobetti Home for Veterans should obtain Medicare reimbursement for physical therapy services and Medicaid reimbursement for incontinent supplies

provided to eligible members of the Home. Also, the Home should enroll all eligible members in Medicaid. (Finding 2)

The D.J. Jacobetti and Grand Rapids Homes for Veterans did not establish a sufficient process to verify financial information to determine if members have disclosed all income and divested assets in accordance with policy established by the Board of Managers of the Michigan Veterans' Homes (Finding 3).

The D.J. Jacobetti and Grand Rapids Homes for Veterans did not spend restricted funds before State General Fund/general purpose funds and did not reimburse the State General Fund for amounts collected from a federal grant (Finding 4).

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Audit Objective:

To assess the efficiency of the administration of the Emergency Grant Program.

Audit Conclusion:

We concluded that the administration of the Emergency Grant Program was generally efficient.

Reportable Condition:

MVTF should make changes in operations in Wayne County and central office procedures that would result in administrative efficiencies for the Emergency Grant Program (Finding 5).

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Agency Response:

The Veterans Affairs Directorate's preliminary response indicated that it concurs with all of the findings and recommendations.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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

April 21, 2005

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 Veterans Affairs Directorate, Department of Military and Veterans Affairs.

This report contains our report summary; description of agency, audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; three exhibits, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. 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 this audit.

AUDITOR GENERAL

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TABLE OF CONTENTS

VETERANS AFFAIRS DIRECTORATE DEPARTMENT OF MILITARY AND VETERANS AFFAIRS

	<u>Page</u>
INTRODUCTION	
Report Summary	1
Report Letter	3
Description of Agency	7
Audit Objectives, Scope, and Methodology and Agency Responses	8
COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES	
Effectiveness of the D.J. Jacobetti and Grand Rapids Homes for Veterans in Maximizing Their Cost Reimbursements	11
1. Medicaid and Medicare Certification	11
2. Reimbursement for Services and Supplies	14
3. Member Assessment	16
4. Use of Restricted Funds	17
Efficiency of the Administration of the Emergency Grant Program	19
5. Administrative Costs	20
SUPPLEMENTAL INFORMATION	
Michigan Veterans' Trust Fund	
Exhibit 1 - Revenue	24
Exhibit 2 - Total Administrative Expenditures	25
Exhibit 3 - Number of Emergency Grants Awarded	26

GLOSSARY

Glossary of Acronyms and Terms

28

Description of Agency

The Veterans Affairs Directorate is responsible for the supervision and direction of the two State veterans' homes, the D.J. Jacobetti Home for Veterans located in Marquette and the Grand Rapids Home for Veterans located in Grand Rapids. The Homes provide domiciliary care* and nursing facility care* to aged and disabled military veterans and widows, widowers, spouses, former spouses, and parents of State veterans.

The following table provides information about the Homes as of and for the fiscal year ended September 30, 2003:

	D.J. Jacobetti	Grand Rapids	Total
Number of beds available in nursing facility care	182	615	797
Number of members in nursing facility care	182	611	793
Number of beds available in domiciliary care	59	112	171
Number of members in domiciliary care	16	105	121
Number of employees (full-time and part-time)	161	489	650
Number of employees per patient	.81	.68	
Total expenditures (in millions)	\$ 12.8	\$ 41.4	\$ 54.2
Funding sources (in millions):			
State General Fund/general purpose funds	\$ 4.6	\$ 13.8	\$ 18.4
Member assessments for cost of care	\$ 4.1	\$ 13.9	\$ 18.0
U.S. Department of Veterans Affairs	\$ 3.8	\$ 12.6	\$ 16.4
Medicaid and Medicare	\$ 0.3	\$ 1.1	\$ 1.4

In addition, the Directorate and the Michigan Veterans' Trust Fund (MVTF) Board of Trustees are responsible for managing the administrative functions of MVTF. Act 9, P.A. 1946 (First Extra Session), established MVTF and the Emergency Grant Program for veterans and deposited \$50 million in MVTF to provide investment earnings to fund the emergency grants and related administrative expenditures. MVTF also makes tuition grants to dependents of disabled or deceased veterans pursuant to Sections 35.111 - 35.112 of the *Michigan Compiled Laws*.

For fiscal year 2002-03, MVTF expenditures totaled \$3.0 million, including \$1.1 million for emergency grants, \$0.9 million for tuition grants, and \$1.0 million for administration. As of July 31, 2004, MVTF had 5.5 employees in the central office, 4.0 employees in Wayne County, and 0.6 employees in Oakland County.

* See glossary at end of report for definition.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance audit* of the Veterans Affairs Directorate, Department of Military and Veterans Affairs, had the following objectives:

1. To assess the effectiveness* of the D.J. Jacobetti and Grand Rapids Homes for Veterans in maximizing their cost reimbursements.
2. To assess the efficiency* of the administration of the Emergency Grant Program.

Audit Scope

Our audit scope was to examine the program and other records of the Veterans Affairs Directorate. 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.

Activity of the Michigan Veterans' Trust Fund (MVTF) was included in this report as supplemental information. However, our audit was not directed toward expressing an opinion on this information and, accordingly, we express no opinion on it.

Audit Methodology

Our audit procedures, performed during the period March through October 2004, included an examination of Veterans Affairs Directorate records for the period October 1, 1999 through July 31, 2004. Our audit methodology included a preliminary review of the processes developed by the Directorate to administer its programs. Our preliminary review included interviews and discussions with the Directorate's staff regarding their functions and responsibilities and examination of policies and procedures, applicable laws, and appropriations acts.

To assess the effectiveness of the D.J. Jacobetti and Grand Rapids Homes for Veterans in maximizing their cost reimbursements, we reviewed the assessment of members for the cost of their care and the billing of Medicaid and Medicare for the

* See glossary at end of report for definition.

medical services and supplies provided to members. We also reviewed the medical services provided to members to identify additional medical services that could be billed to Medicaid and Medicare and estimated the amount of additional revenue that could be collected. Also, we analyzed whether the Homes should obtain Medicaid and Medicare certification so that the Homes could be reimbursed a per diem rate for nursing facility care for the long-term care of their members. We met with personnel from the Department of Community Health to determine what changes would be needed to comply with Medicaid and Medicare rules and regulations so that the Homes could obtain certification and be eligible for the Medicaid and Medicare per diem rate for nursing facility care of eligible members.

To assess the efficiency of the administration of the Emergency Grant Program, we reviewed the administrative costs of the Program and the policies and procedures for the issuance of grants. We also reviewed emergency grant applications to verify that grants were distributed to eligible veterans for allowable purposes as required by the MVTF Board of Trustees. Also, we visited counties to understand the operations of the Program at the county level. Further, we discussed the uses and need for grant funding with MVTF and county personnel.

Agency Responses

Our audit report contains 5 findings and 6 corresponding recommendations. The Veterans Affairs Directorate's preliminary response indicated that it concurs with all of the findings and 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 the audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF THE D.J. JACOBETTI AND GRAND RAPIDS HOMES FOR VETERANS IN MAXIMIZING THEIR COST REIMBURSEMENTS

COMMENT

Background: The D.J. Jacobetti and Grand Rapids Homes for Veterans provide care to aged and disabled military veterans and widows, widowers, spouses, former spouses, and parents of State veterans. Operational expenditures are primarily funded by three sources: State General Fund/general purpose funds, member assessments for the cost of care, and federal grant awards. The Homes receive federal Medicaid and Medicare reimbursements for the cost of some medical services and supplies provided to eligible members. At the time of our audit, the Homes were not able to obtain reimbursement for the Medicaid and Medicare per diem rate for nursing facility care of eligible members because the Homes were not certified by Medicaid and Medicare.

Audit Objective: To assess the effectiveness of the D.J. Jacobetti and Grand Rapids Homes for Veterans in maximizing their cost reimbursements.

Conclusion: We concluded that the D.J. Jacobetti and Grand Rapids Homes for Veterans were moderately effective in maximizing their cost reimbursements. Our audit disclosed reportable conditions* related to Medicaid and Medicare certification, reimbursement for services and supplies, member assessment, and use of restricted funds (Findings 1 through 4).

FINDING

1. Medicaid and Medicare Certification

The Veterans Affairs Directorate should continue to pursue Medicaid and Medicare certification to increase reimbursements from Medicaid and Medicare for nursing facility care at the D.J. Jacobetti and Grand Rapids Homes for Veterans.

Certification of the Homes would allow them to receive a net increase of approximately \$5.7 million in federal funds for daily per diem rate reimbursements for nursing facility care. Although additional annual costs estimated at \$3.4 million would be necessary to obtain Medicaid and Medicare certification, we estimate that the changes would be beneficial to the Homes by providing additional Medicaid

* See glossary at end of report for definition.

revenue of \$9.1 million annually and enhancement in services to the members. This additional revenue includes potential amounts from changes in Medicaid reimbursement calculations for state homes for veterans made by federal Public Law 108-422, which was enacted after the completion of our audit fieldwork.

Obtaining Medicaid and Medicare certification would be a lengthy and complex process. However, we were informed by the National Association of State Veterans Homes that approximately half of the veterans homes in other states have obtained Medicaid certification. Issues that the Directorate would have to address include:

- a. The Directorate would need to obtain from the Department of Community Health (DCH) an accurate estimate of the likely per diem rate and complete an evaluation of the medical condition of the Homes' members. The Medicaid per diem rate depends on the actual costs at the Homes, the provider type approved by DCH, and the level of care required by the members based on their medical condition (acuity rate). Based on our analysis and informal discussion with DCH, we used an estimate of \$173 per day for the Grand Rapids Home for Veterans to estimate the additional revenue of \$9.1 million annually. However, this estimate was based on a fiscal year 2000-01 cost report for the Home. Also, because information was not readily available, our estimate did not include an estimate of the potential Medicare revenue. The costs for the Home have increased since fiscal year 2000-01; therefore, the Directorate should obtain more current information to enable it to compare the amount of additional revenue that could be collected to the additional costs of complying with Medicaid and Medicare requirements.
- b. The Directorate would need to seek regulatory changes. Examples of regulatory changes that may be needed include amending the Medicaid State Plan to identify the Homes as a separate provider type and to allow the Homes to restrict admission to veterans as provided by Section 36.11(1) of the *Michigan Compiled Laws*.
- c. The Directorate would need to make structural and staffing changes to the Homes to comply with Medicaid and Medicare certification requirements. Examples of structural changes include increasing the size of 11 of the 265 rooms in the Grand Rapids Home for Veterans and adding windows in some day/dining areas. Examples of staffing changes include adding staff to

develop a restorative program for helping members regain living skills that they have lost and adding staff to improve member assessments and care plans*.

The Homes' estimate of an additional \$3.4 million of ongoing costs for additional residential care aides, nurses, social work services, administrative costs, and other revenue reductions does not include any one-time costs for changes to the Homes' structure in order to comply with Medicaid and Medicare requirements.

The Directorate had pursued Medicaid and Medicare certification in the past; however, the effort was discontinued because the tentative per diem rate developed by DCH did not produce enough additional revenue to offset additional costs to make the effort worthwhile. The Directorate had not recently sought certification because of changes needed at the Homes and continued uncertainty over the per diem rate that would be approved by DCH.

RECOMMENDATION

We recommend that the Veterans Affairs Directorate continue to pursue Medicaid and Medicare certification to increase reimbursements from Medicaid and Medicare for nursing facility care at the D.J. Jacobetti and Grand Rapids Homes for Veterans.

AGENCY PRELIMINARY RESPONSE

The Directorate informed us that it will continue to pursue Medicaid and Medicare certification in concert with the Executive Office, the Office of the State Budget, DCH, and the Legislature. The Directorate recognizes that these agencies of State government may have differing legislative and budget priorities.

The Directorate also informed us that the Department of Military and Veterans Affairs (DMVA) most recently proposed Medicaid certification for the Grand Rapids Home for Veterans as an initial step in receiving increased Medicaid revenue in fiscal year 2002-03. The Directorate indicated that the Executive Budget recommendation for the DMVA appropriation for fiscal year 2002-03 recommended an increase in State General Fund/general purpose appropriations to make

* See glossary at end of report for definition.

physical renovations and increase staffing at the Grand Rapids Home for Veterans. The Directorate also indicated that during negotiations in March 2002, DCH was unable to approve or establish a satisfactory Medicaid reimbursement rate.

The Directorate further informed us that although the House of Representatives approved the appropriation to pursue Medicaid certification, the Senate did not and, as a result of the legislative conference committee's recommendation, funding for Medicaid certification was removed from the DMVA appropriation (Act 514, P.A. 2002) for fiscal year 2002-03. The Directorate indicated that the three subsequent Executive Budget recommendations have not proposed Medicaid certification and the the two subsequent DMVA appropriations have not funded the actions necessary to obtain Medicaid certification.

FINDING

2. Reimbursement for Services and Supplies

The D.J. Jacobetti Home for Veterans should obtain Medicare reimbursement for physical therapy services and Medicaid reimbursement for incontinent supplies provided to eligible members of the Home. Also, the Home should enroll all eligible members in Medicaid.

We estimate that the D.J. Jacobetti Home for Veterans could have received additional Medicare revenue of \$201,000 for physical therapy services and Medicaid revenue of \$57,000 for incontinent supplies during fiscal year 2003-04 if it had billed Medicare and Medicaid for these eligible services and supplies.

The Grand Rapids Home for Veterans uses private contractors to provide physical therapy services and incontinent supplies. The contractors bill Medicare or Medicaid and use the federal reimbursement to pay for the cost of providing the services and supplies to eligible members. Under this arrangement, the Grand Rapids Home for Veterans avoids using State funds for the services and supplies. The D.J. Jacobetti Home for Veterans should pursue a similar arrangement to save State resources.

In addition, the D.J. Jacobetti Home for Veterans had not enrolled all eligible members in Medicaid. The D.J. Jacobetti Home for Veterans can enroll members in Medicaid and receive reimbursement for medical services and eligible supplies.

We reviewed 10 of 160 members and determined that 2 appeared to be eligible for Medicaid but had not been enrolled in Medicaid by the D.J. Jacobetti Home for Veterans. Also, based on the 57% of Medicaid eligible members in the Grand Rapids Home for Veterans, we estimate that there may be approximately 57 additional members eligible for Medicaid in the D.J. Jacobetti Home for Veterans.

RECOMMENDATIONS

We recommend that the D.J. Jacobetti Home for Veterans obtain Medicare reimbursement for physical therapy services and Medicaid reimbursement for incontinent supplies provided to eligible members of the Home.

We also recommend that the Home enroll all eligible members in Medicaid.

AGENCY PRELIMINARY RESPONSE

The Directorate concurred that Medicare reimbursement for physical therapy services may save costs at the D.J. Jacobetti Home for Veterans. The Directorate believes that this speculative proposal requires the service be privatized and the lay-off of the State employees currently providing physical therapy at the Home and that the proposal assumes an identical business climate in two widely separate areas of the State. The Directorate informed us that it will work in concert with the Office of the State Employer to determine how it may proceed in view of State level employment agreements, contracts, and policy.

The Directorate also informed us that the D.J. Jacobetti Home for Veterans has now evaluated its current members for enrollment in the Home Medicaid program and, of 133 possible enrollments, 65 are enrolled, 39 have excess assets, 12 have excess income, 3 have been denied for other reasons, and 14 are pending.

The Directorate further informed us that the D.J. Jacobetti Home for Veterans now procures incontinent supplies via Medicaid for eligible members. If Medicaid and Medicare certification (Finding 1) is implemented, it would replace the Home Medicaid program for members of the Homes and this audit recommendation would be incorporated into that program.

FINDING

3. Member Assessment

The D.J. Jacobetti and Grand Rapids Homes for Veterans did not establish a sufficient process for verifying financial information to determine if members have disclosed all income and divested assets in accordance with policy established by the Board of Managers of the Michigan Veterans' Homes.

The Homes need accurate financial information to assess members the correct amount for the cost of their care based on their ability to pay as required by Section 36.11 of the *Michigan Compiled Laws*. The Homes require members to disclose assets, pension and social security benefits, and other sources of income to determine the ability of each member to pay for his or her care. Policy established by the Board of Managers of the Michigan Veterans' Homes also requires any assets divested within 30 months before application for admission to be considered as part of the member's ability to pay.

The D.J. Jacobetti Home for Veterans informed us that it does not request copies of the members' income tax returns. The Grand Rapids Home for Veterans informed us that it only requests copies of the members' most recent income tax returns for members entering the Home.

We reviewed 30 files at the Grand Rapids Home for Veterans and found that only 3 files included copies of the members' income tax returns at the time of entering the Home. We selected an additional sample of 30 members from both Homes and compared financial information provided by members with their last three years' income tax returns filed with the Department of Treasury. This comparison indicated that 8 (27%) of the 30 members had undisclosed income or assets or may have divested assets within 30 months of admission.

Although the Grand Rapids Home for Veterans requested the most recent tax returns, this would not necessarily provide information regarding asset activity over the past 30 months. However, the Homes could require members to give the Homes permission to request copies of any income tax returns filed with the Department of Treasury in the previous three years in order to obtain documentation of compliance with the Homes' policies.

RECOMMENDATION

We recommend that the D.J. Jacobetti and Grand Rapids Homes for Veterans establish a sufficient process for verifying financial information to determine if members have disclosed all income and divested assets in accordance with policy established by the Board of Managers of the Michigan Veterans' Homes.

AGENCY PRELIMINARY RESPONSE

The Directorate concurs with this finding. The Directorate informed us that a review of Board of Managers' policies has begun. The Directorate believes the review will likely result in a revised admission application/contract requiring submission of individual tax returns from the previous three years. Additionally, the Directorate indicated that it will work with the Department of Treasury to determine if the Homes may have access to income tax returns filed with the State of Michigan.

FINDING

4. Use of Restricted Funds

The D.J. Jacobetti and Grand Rapids Homes for Veterans did not spend restricted funds before State General Fund/general purpose funds and did not reimburse the State General Fund for amounts collected from a federal grant.

As a result, the Homes carried forward available restricted funds of \$3.9 million and \$4.9 million that could have been spent instead of State General Fund/general purpose funds in fiscal years 2001-02 and 2002-03, respectively.

The Homes' operational expenditures are funded by three sources: State General Fund/general purpose funds, member assessments for the cost of care (restricted funds), and federal grant awards. Section 18.1395(5) of the *Michigan Compiled Laws* requires that, in an account financed by multiple sources, any State General Fund/general purpose funding should be used only after the available restricted funds have been expended. We noted:

- a. The Homes did not properly match the revenue earned from the member assessments and federal grants with the operational expenditures each year. Instead, the Homes used more State General Fund/general purpose funds to

pay current expenditures than needed and did not use all available member assessments and federal revenue. The remaining member assessments and federal revenue were carried forward and were available to be used in subsequent years. However, both the member assessments and the federal revenue are earned based on the delivery of care and, therefore, should be matched and expended in the same accounting period in which the expenditures for the delivery of care occurred.

- b. The Directorate did not reimburse the State General Fund \$500,000 for a capital outlay project that was funded by a federal grant. Because the project was completed before the Home received a federal award for the project from the U.S. Department of Veterans Affairs, the Directorate used \$500,000 of State General Fund/general purpose funding to cover project expenditures. The \$500,000 was later collected from the federal award and should have been returned to the State General Fund to reimburse it. However, the Directorate recorded the federal revenue as restricted revenue and carried the funds forward instead of reimbursing the State General Fund.

The Directorate should use all member assessments and federal revenue collected for the operational costs of care to properly match revenue earned with costs incurred. This practice would have provided State General Fund/general purpose cost savings of approximately \$3.9 million and \$1.0 million in fiscal years 2001-02 and 2002-03, respectively.

RECOMMENDATION

We recommend that the D.J. Jacobetti and Grand Rapids Home for Veterans spend restricted funds before State General Fund/general purpose funds and reimburse the State General Fund for amounts collected from a federal grant.

AGENCY PRELIMINARY RESPONSE

The Directorate concurs with this finding. The Directorate informed us that it will work in concert with appropriate State agencies concerning proportional spending. The Directorate believes that the policy, procedure, and practice of proportional spending of revenue to meet the Homes' expenditures has been considered in the creation of the Executive Budget recommendations and the resulting legislative appropriations.

The Directorate also informed us that the carry-forward revenue established in the Veterans Facilities Operation Fund identified by Section 36.11(2) of the *Michigan Compiled Laws* has been used in lieu of State General Fund/general purpose funds to support the operation and capital improvement of the Homes and that the Legislature approves these expenditures in the normal appropriation process. For example, the Directorate further informed us that House Bill 4308 of the Legislature's fiscal year 2005-06 session approves the expenditure of \$2.4 million of the Veterans Facilities Operation Fund in lieu of fiscal year 2004-05 State General Fund/general purpose funds to match a grant from the U.S. Department of Veterans Affairs to pay for life-safety upgrades at the D.J. Jacobetti and Grand Rapids Homes for Veterans.

The Directorate concurs with the transfer of \$500,000 from the Veterans Facilities Operation Fund to the State General Fund to reimburse the State General Fund for an advance on a heating/air conditioning capital outlay project at the D.J. Jacobetti Home for Veterans.

EFFICIENCY OF THE ADMINISTRATION OF THE EMERGENCY GRANT PROGRAM

COMMENT

Background: Act 9, P.A. 1946 (First Extra Session), established the Michigan Veterans' Trust Fund (MVTF) and the Emergency Grant Program for veterans and deposited \$50 million in MVTF to provide investment earnings to fund the emergency grants and related administrative expenditures. This Act also provided for county committees of veterans to administer emergency grants at the local level.

The resources available to make emergency grants are limited because MVTF also makes tuition grants to dependents of disabled or deceased veterans. The Tuition Grant Program was administratively transferred to the MVTF Board of Trustees by Act 371, P.A. 1965, from the Michigan Department of Education. Section 35.112 of the *Michigan Compiled Laws* states that the appropriations provided to the Michigan Department of Education for this purpose shall be made to the MVTF Board of Trustees. However, since 1996, MVTF has not received a State General Fund appropriation for the Tuition Grant Program. As a result, the MVTF Board of Trustees

used investment earnings of MVTF that otherwise may have been used for emergency grants to pay for the Tuition Grant Program.

The MVTF Board of Trustees reduced the size of the Emergency Grant Program by over \$1 million from fiscal year 1998-99 to fiscal year 2002-03 because revenues substantially declined (see Exhibit 1). The Board reduced total administrative expenditures (see Exhibit 2) primarily by reducing staff from 14.0 positions to 10.6 positions and by reducing the number of emergency grants awarded (see Exhibit 3).

Audit Objective: To assess the efficiency of the administration of the Emergency Grant Program.

Conclusion: We concluded that the administration of the Emergency Grant Program was generally efficient. However, our audit disclosed a reportable condition related to administrative costs.

FINDING

5. Administrative Costs

MVTF should make changes in operations in Wayne County and central office procedures that would result in administrative efficiencies for the Emergency Grant Program. Efficiencies in administrative activities would provide additional funds for emergency grants to veterans.

Our review of county and central office procedures for processing grants disclosed:

- a. MVTF should continue to seek methods to reduce administrative costs, such as reassignment of staff located in Wayne County. Administrative costs for Directorate staff located in Wayne County for processing emergency grants for Wayne County residents were excessive in comparison with other counties. During fiscal years 2002-03 and 2003-04 (through July 23, 2004), the average cost of processing a grant application for Wayne County was \$166 and \$243, respectively, while the average cost for all other counties was \$84 and \$102, respectively. Wayne County had 47% of county administrative costs during fiscal year 2002-03 but only 21% of State veterans.

MVTF had a staff of four full-time State employees in Wayne County; in all other counties, except one, staffing was provided by the counties at a lower

cost. Because of the relatively high administrative costs, MVTF attempted to reduce the Wayne County office by one full-time employee in fiscal year 2003-04 but was unsuccessful due to union agreements related to lay-offs. At the time of our audit fieldwork, MVTF was negotiating with Wayne County for the county to provide staff to process emergency grant applications through a service agreement. However, MVTF had been unable to reach agreement with Wayne County.

- b. MVTF central office staff could improve efficiency in processing Emergency Grant Program data by using a relational database and eliminating duplicate activities. For example, two employees in the central office maintain three separate sets of spreadsheets that contain duplicate information. Also, these employees reconcile the information among the three sets of spreadsheets to ensure that the data is entered correctly on each spreadsheet. MVTF should consider using a relational database to enter the data once and then use the database program to produce any needed reports.
- c. MVTF should consider reviewing only a sample of high risk applications for eligibility. MVTF trains county staff to review applications for eligibility and the applications are also reviewed for eligibility by a county committee. In addition, the MVTF central office reviews all applications for eligibility. In fiscal years 2001-02 and 2002-03, the MVTF central office reviewed 9,560 approved and denied applications totaling \$2,871,898 in emergency grants for eligibility and found only \$4,823 that was awarded to eight veterans who were not eligible. Based on MVTF's estimate of five minutes to perform each review, we estimate that the cost of the review procedures was at least \$24,000. In addition, MVTF used these reviews only for monitoring and, consequently, did not attempt to recover funds provided to ineligible veterans. The additional central office staff reviews may not be cost beneficial.

RECOMMENDATION

We recommend that MVTF make changes in operations in Wayne County and central office procedures that would result in administrative efficiencies for the Emergency Grant Program.

AGENCY PRELIMINARY RESPONSE

The Directorate concurs that MVTF must make every reasonable effort to improve efficiency.

The Directorate informed us that MVTF lowered State level administrative expenditures from \$955,230 in fiscal year 2001-02 to \$687,935 in fiscal year 2003-04 and county level expenditures from \$254,942 to \$235,098 for the same time period. The Directorate also informed us that MVTF continues to bear the entire operational and administrative expense of the Tuition Grant Program.

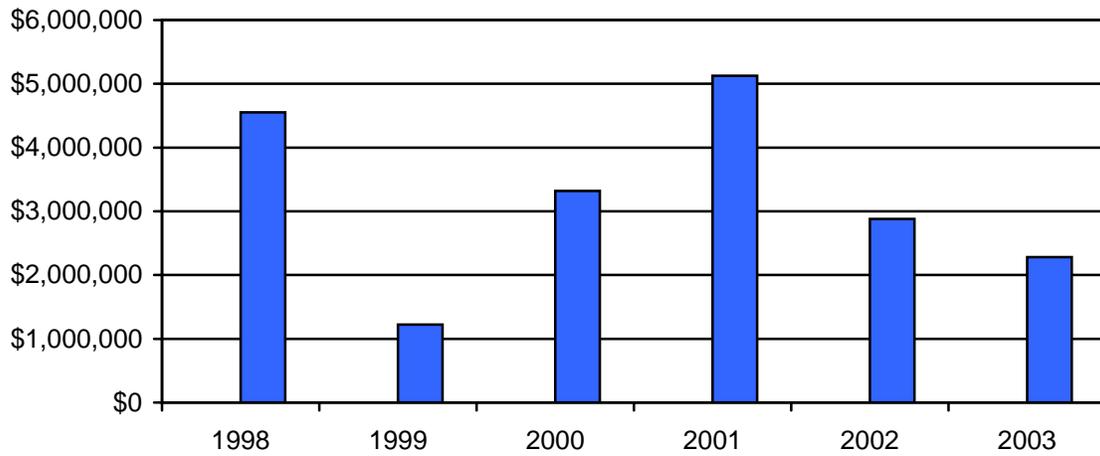
In addition, the Directorate informed us that on October 14, 2004, MVTF reached a tentative agreement with Wayne County to further reduce administrative expenditures. However, the Directorate must comply with State level employment agreements, contracts, and policy. The Directorate indicated that it is working with the Office of the State Employer to properly determine how and when it may implement the MVTF-Wayne County agreement.

Further, the Directorate informed us that it will recommend that the MVTF trustees revise their policy of a complete audit for eligibility at both the county and State levels.

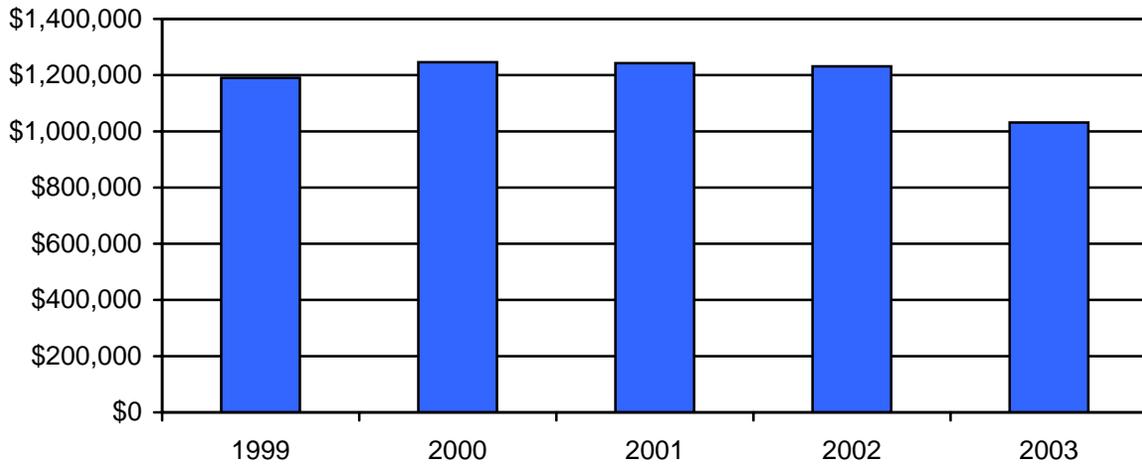
The Directorate also concurs that an effective relational database may ease administrative expenditures. The Department of Information Technology continues its efforts to develop the required program.

SUPPLEMENTAL INFORMATION

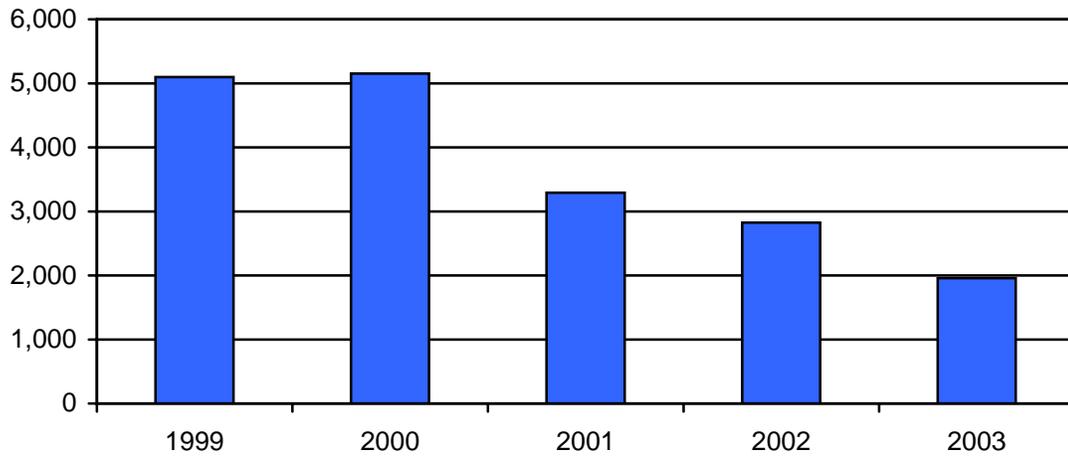
MICHIGAN VETERANS' TRUST FUND
Department of Military and Veterans Affairs
Revenue
Fiscal Year Ended September 30



MICHIGAN VETERANS' TRUST FUND
Department of Military and Veterans Affairs
Total Administrative Expenditures
Fiscal Year Ended September 30



MICHIGAN VETERANS' TRUST FUND
Department of Military and Veterans Affairs
Number of Emergency Grants Awarded
Fiscal Year Ended September 30



GLOSSARY

Glossary of Acronyms and Terms

care plan	An individualized plan for the care of a member.
DCH	Department of Community Health.
DMVA	Department of Military and Veterans Affairs.
domiciliary care	Serves individuals who need very little nursing care but have needs that require a structured environment.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
MVTF	Michigan Veterans' Trust Fund.
nursing facility care	Serves individuals with moderate disabilities who need nursing care.
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.

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