



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

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– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Report Number:
511-0105-13

Michigan Veterans Affairs Agency

Department of Military and Veterans Affairs

Released:
December 2013

Executive Order No. 2013-2 created the Michigan Veterans Affairs Agency (MVAA), effective March 20, 2013. Its purpose is to increase Michigan veterans' awareness of available veterans' benefits and services; improve the State's service delivery model; increase efficiency; and foster collaboration between federal, State, and local partners. For fiscal year 2012-13, the Department of Military and Veterans Affairs (DMVA) awarded \$2.9 million in grants to provide veterans with advice, advocacy, and assistance.

Audit Objective:

To assess the effectiveness of DMVA's efforts to ensure the effective and efficient use of State grant funds by the veterans service organizations (VSOs).

Audit Conclusion:

We concluded that DMVA's efforts to ensure the effective and efficient use of State grant funds by the VSOs were not effective. We noted three material conditions (Findings 1 through 3).

Material Conditions:

DMVA did not issue performance standards to each VSO that received State grant funds. As a result, MVAA did not have a reasonable basis for assessing VSO performance, for evaluating VSO effectiveness, and, ultimately, for awarding future State grant funds (Finding 1).

DMVA did not effectively monitor the performance of the VSOs that received State grant funds. As a result, MVAA

could not ensure that the VSOs effectively and efficiently used State grant funds to maximize service delivery to veterans (Finding 2).

DMVA did not require the VSOs to separately account for expenditures incurred using State grant funds from total VSO expenditures. As a result, MVAA could not ensure that the VSOs expended State grant funds for only allowable veterans' advocacy and outreach activities (Finding 3).

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Audit Objective:

To assess the effectiveness of DMVA's efforts to coordinate services from VSOs, State agencies, and county veterans counselors to maximize U.S. Department of Veterans Affairs (VA) benefits for Michigan veterans.

Audit Conclusion:

We concluded that DMVA was effective in its efforts to coordinate services from

VSOs, State agencies, and county veterans counselors to maximize VA benefits for Michigan veterans. However, our assessment disclosed one reportable condition (Finding 4).

Reportable Condition:

DMVA had not developed and implemented a process to ensure that all county veterans counselors received the training and accreditation necessary to provide quality services to Michigan veterans (Finding 4).

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Audit Objective:

To assess DMVA's compliance with statutory reporting requirements.

Audit Conclusion:

We concluded that DMVA was not in compliance with statutory reporting requirements. Our assessment disclosed one material condition (Finding 5).

Material Condition:

DMVA did not comply with legislative reporting requirements related to veterans' advice, advocacy, and assistance responsibilities. As a result, the Legislature did not receive the necessary data to evaluate the veterans' advice, advocacy, and assistance programs operated by DMVA (Finding 5).

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Agency Response:

Our audit report contains 5 findings and 5 corresponding recommendations. MVAA's preliminary response indicates that it agrees with all 5 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

December 20, 2013

Major General Gregory J. Vadnais, Director
Department of Military and Veterans Affairs
3411 North Martin Luther King Jr. Boulevard
Lansing, Michigan
and
Mr. Jeffrey S. Barnes, Director
Michigan Veterans Affairs Agency
222 North Washington Square
Lansing, Michigan

Dear General Vadnais and Mr. Barnes:

This is our report on the performance audit of the Michigan Veterans Affairs Agency, Department of Military and Veterans Affairs.

This report contains our report summary; a description of agency; our audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; a summary of veteran population and veterans benefit expenditures by state and territory, presented as supplemental information; and a glossary of abbreviations and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's response at the end of our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

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

Sincerely,


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

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Description of Agency

The Veterans Affairs Directorate, within the Department of Military and Veterans Affairs (DMVA), was responsible for overseeing the State grant funds awarded to chartered veterans service organizations* (VSOs).

Executive Order No. 2013-2, effective March 20, 2013, created the Michigan Veterans Affairs Agency (MVAA) within DMVA and transferred all activities, powers, duties, functions, and responsibilities for veterans' services from DMVA to MVAA. MVAA's purpose is to increase Michigan veterans' awareness of available veterans' benefits and services; improve the State's service delivery model; increase efficiency; and foster collaboration between federal, State, and local partners. MVAA's overall mission* is to provide Michigan veterans and their dependents with the information and assistance needed to ensure that they receive the highest level of compensation, health care, and other services to which they are entitled. Although MVAA did not become fully operational until October 1, 2013 (contracts put in place by the Directorate were administered as written and supervised by the DMVA budget office), the Governor appointed a director and processes were initiated in March 2013 to establish the agency and its policies and procedures and to determine needed changes.

The Directorate was and MVAA is now charged with administering the State's grants to the VSOs and the Michigan Association of County Veterans Counselors (MACVC). Beginning in fiscal year 2010-11, DMVA awarded grant funds to the American Legion and the Veterans of Foreign Wars (large VSOs), the Disabled American Veterans and the Marine Corps League (medium VSOs), and the Military Order of the Purple Heart (small VSO). These five VSOs collaborate and make up the Michigan Veterans Coalition (MVC). In addition, DMVA awarded grant funds to one VSO that specializes in the advocacy for paralyzed veterans, the Paralyzed Veterans of America (PVA).

Through a memorandum of understanding with the State, the VSOs in MVC coordinate a wide range of services to the veteran community, including:

- Providing representation on legislative matters affecting veterans.
- Aiding veterans in obtaining financial assistance from the U.S. Department of Veterans Affairs (VA).

* See glossary at end of report for definition.

- Providing veterans with job placement assistance.
- Aiding veterans in obtaining educational assistance and job training.
- Collaborating with other organizations to provide veterans with community services and youth activities.

In addition, MVAA partners with other organizations to provide services to Michigan's veterans. These partners include MACVC; the Michigan Economic Development Corporation; and various State agencies, such as the Department of State, the Department of Human Services, the Department of Licensing and Regulatory Affairs, and the Department of Community Health.

For fiscal year 2011-12, the Directorate incurred expenditures totaling \$3.2 million, including \$2.8 million in grants awarded to provide veterans with advice, advocacy, and assistance. The Directorate had 7 employees as of September 30, 2012. For fiscal year 2012-13, the Directorate incurred expenditures totaling \$1.7 million, including \$2.9 million in grants awarded to provide veterans with advice, advocacy, and assistance and through July 31, 2013. MVAA had 24 employees as of July 31, 2013.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit* of the Michigan Veterans Affairs Agency (MVAA), Department of Military and Veterans Affairs (DMVA), had the following objectives:

1. To assess the effectiveness* of DMVA's efforts to ensure the effective and efficient* use of State grant funds by the veterans service organizations (VSOs).
2. To assess the effectiveness of DMVA's efforts to coordinate services from VSOs, State agencies, and county veterans counselors* to maximize U.S. Department of Veterans Affairs (VA) benefits for Michigan veterans.
3. To assess DMVA's compliance with statutory reporting requirements.

Audit Scope

Our audit scope was to examine the program and other records of the Michigan Veterans Affairs Agency. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2010 through August 31, 2013.

As part of our audit report, we included supplemental information that relates to our audit objectives and findings (a summary of veteran population and veterans benefit expenditures by state and territory). Our audit was not directed toward expressing an opinion on this information and, accordingly, we express no opinion on it.

* See glossary at end of report for definition.

Audit Methodology

We conducted a preliminary review of MVAA's operations to formulate a basis for defining our audit scope. Our preliminary review included interviewing MVAA personnel, VSO personnel, and county veterans counselors; reviewing applicable State laws and MVAA and VSO processes, policies, and procedures; and analyzing available data. We reviewed issued audit reports from the Office of the Auditor General and another state that has veterans service operations similar to Michigan.

To accomplish our first objective, we interviewed MVAA management to gain an understanding of the processes used to monitor the VSOs' use of grant funds. We obtained the memorandums of understanding between MVAA and each VSO to identify the responsibilities assigned to MVAA and the responsibilities assigned to the VSOs. We interviewed VSO directors to determine their understanding of allowable uses of grant funds. We obtained and reviewed policies and procedures for veterans service officer* travel reimbursements and judgmentally selected and tested travel reimbursement vouchers for allowable costs. We reviewed the Michigan Veterans Coalition's (MVC's) documented process for activity reports* and recovery reports*. We recalculated recovery* amounts from a random sample of award letters to assess the consistency and accuracy of reported recoveries for the VSOs within MVC.

To accomplish our second objective, we interviewed MVAA management and the VSO directors whose VSOs received State grant funds. We also interviewed selected county veterans counselors to identify MVAA's collaborative efforts and its training assistance provided to county veterans counselors. We obtained and reviewed documentation for MVAA collaborative efforts and assessed the level of coordination of effort among MVAA, other State agencies, and nonprofit organizations.

To accomplish our third objective, we reviewed applicable appropriations acts; Act 431, P.A. 1984, as amended; and the memorandums of understanding between MVAA and the VSOs to identify significant compliance requirements. We requested documentation to support compliance with the identified laws and agreements.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement

* See glossary at end of report for definition.

as identified through a preliminary review. Our limited audit resources are used, by design, to identify where and how improvements can be made. Consequently, we prepare our performance audit reports on an exception basis.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 5 findings and 5 corresponding recommendations. MVAA's preliminary response indicates that it agrees with all 5 recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion at the end of our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require MVAA to develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We released our prior performance audit of the Use of State Grant Funds by Veterans Service Organizations, Veterans Affairs Directorate, Department of Military and Veterans Affairs (51-602-00L), in August 2001. The Veterans Affairs Directorate complied with 2 of the 6 prior audit recommendations. We rewrote the 4 other prior audit recommendations for inclusion in Findings 1 through 3 of this audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFECTIVE AND EFFICIENT USE OF STATE GRANT FUNDS BY THE VSOs

COMMENT

Background: The Department of Military and Veterans Affairs (DMVA) is statutorily charged with administering State grants to help support veterans. To accomplish its charge, DMVA awarded six grants to chartered veterans service organizations (VSOs), including the American Legion, Veterans of Foreign Wars, Disabled American Veterans, Marine Corps League, Military Order of the Purple Heart, and Paralyzed Veterans of America (PVA). DMVA is responsible for setting the requirements of the grants and for monitoring the VSOs' performance of the grant requirements.

Executive Order No. 2013-2, effective March 20, 2013, created the Michigan Veterans Affairs Agency (MVAA) within DMVA and transferred all activities, powers, duties, functions, and responsibilities for veterans' services from DMVA to MVAA. MVAA's purpose is to increase Michigan veterans' awareness of available veterans' benefits and services; improve the State's service delivery model; increase efficiency; and foster collaboration between federal, State, and local partners.

Audit Objective: To assess the effectiveness of DMVA's efforts to ensure the effective and efficient use of State grant funds by the VSOs.

Audit Conclusion: We concluded that DMVA's efforts to ensure the effective and efficient use of State grant funds by the VSOs were not effective. Our assessment disclosed three material conditions*:

- DMVA did not issue performance standards* to each VSO that received State grant funds (Finding 1).
- DMVA did not effectively monitor the performance of the VSOs that received State grant funds (Finding 2).
- DMVA did not require the VSOs to separately account for expenditures incurred using State grant funds from total VSO expenditures (Finding 3).

* See glossary at end of report for definition.

FINDING

1. **VSO Performance Standards**

DMVA did not issue performance standards to each VSO that received State grant funds. As a result, MVAA did not have a reasonable basis for assessing VSO performance, for evaluating VSO effectiveness, and, ultimately, for awarding future State grant funds.

Section 501(15), Act 162, P.A. 2010, a boilerplate section of DMVA's fiscal year 2010-11 appropriations act, states that DMVA shall issue performance standards to each VSO that receives State grant funds. The Act specifically states that the VSOs must comply with legislative requirements related to service work activity and to the accounting of recoveries, including increases in the number of initial claims filed and recovery rates. The Act also states that compliance with these performance standards shall be the basis of future grants. The appropriations acts for fiscal years 2011-12 and 2012-13 referred to these established requirements and continued these requirements for grants awarded to the VSOs.

DMVA informed us that the agency responsible for veterans' services, the Veterans Affairs Directorate, was not aware of the requirements and, therefore, it had neither developed nor disseminated performance standards to the VSOs. Also, our review of the memorandums of understanding disclosed that performance standards were not included. MVAA informed us that, starting with the fiscal year 2013-14 grants, it would include the required performance standards.

We noted a similar condition in the prior audit report. In response to that audit, the Veterans Affairs Directorate stated that it agreed and that it would work to develop performance standards and indicators to measure effectiveness of services provided to Michigan's veterans. However, DMVA had not developed performance standards.

RECOMMENDATION

We recommend that MVAA issue performance standards to each VSO that receives State grant funds.

AGENCY PRELIMINARY RESPONSE

MVAA agrees and informed us that it has established a new grant agreement with the Michigan Veterans Coalition (MVC) that addresses the establishment of performance standards and establishes the need for standardized reporting. Specifically, the new grant agreement will standardize that a recovery is accounted for by the increase in a benefit after an appeal is awarded. Also, MVAA informed us that MVC must provide monthly reports that include the type of claim, the effective date, the lump sum payment per month, the compensation disability rating, and the monthly compensation for work completed by an MVC member and not originated with a county veterans counselor or State agency. In addition, the claim will be tracked by some administrative number or a system will be developed in conjunction with the electronic veteran benefits management system (E-VBMS). MVAA informed us that, because the tracking process is done in coordination with a third party vendor, which currently does not have the tracking capability, MVAA will continue to work with E-VBMS to design a report that identifies claims originated from a county veterans counselor rather than an MVC member.

FINDING

2. Monitoring of VSO Performance

DMVA did not effectively monitor the performance of the VSOs that received State grant funds. As a result, MVAA could not ensure that the VSOs effectively and efficiently used State grant funds to maximize service delivery to veterans.

Section 501(9)(g), Act 162, P.A. 2010, a boilerplate section of DMVA's fiscal year 2010-11 appropriations act, states that DMVA shall review each grant recipient's performance under the program and requires that performance be a major consideration in the future funding of each grant recipient. To help ensure that DMVA had reliable data for evaluating grant recipients' performance, the Legislature enacted several reporting requirements for the VSOs receiving grant funds. Specifically, the Act required the grant recipients to provide reports to DMVA, including annual audited financial statements, an accounting of expenditures, a listing of all service work activity, and an accounting of recoveries. The appropriations acts for fiscal years 2011-12 and 2012-13 referred to these established requirements and continued these requirements for grants awarded to the VSOs.

We requested monthly activity, recovery (the monetary benefits received by a veteran from the U.S. Department of Veterans Affairs [VA]), and performance reports submitted by each VSO during our audit period from DMVA. We judgmentally selected one month for each VSO and requested supporting documentation for that month's reports. Our review disclosed:

- a. DMVA had neither obtained nor required the Paralyzed Veterans of America (PVA) to submit the required reports identified in the appropriations acts. As a result, DMVA could not effectively monitor PVA's performance in assisting veterans.

During our on-site visit, PVA could not provide a roster of cases and PVA did not provide any supporting documentation for its activity and recovery reports. Therefore, we could not substantiate the amounts provided by PVA. PVA received approximately \$318,070 (4%) of the State grant funds awarded to all VSOs during our audit period.

- b. DMVA did not have a process to validate the reported monthly claims activity (the number of claims submitted to the VA) and recoveries submitted by the American Legion, Veterans of Foreign Wars, Disabled American Veterans, Marine Corps League, and Military Order of the Purple Heart (5 VSOs), which received State grant funds. As a result, DMVA could not be assured that the annual reports provided by the 5 VSOs documenting the number and types of claim activity and the amount and types of recoveries were accurate.

We requested the supporting documentation for the monthly claims activity and reported recovery amounts submitted for the selected month from each of the 5 VSOs. Four VSOs indicated that it was not possible to provide supporting documentation because they destroy the award letters after they receive them to protect confidentiality. Therefore, we could not substantiate the amounts provided by the American Legion, Veterans of Foreign Wars, Disabled American Veterans, and Marine Corps League.

We noted a similar condition in the prior audit report. In response to that audit, the Veterans Affairs Directorate stated that it agreed and that it would work to develop accurate recovery computations. However, DMVA did not implement a process to ensure the accuracy of recovery computations.

- c. DMVA did not require the 5 VSOs to provide statutorily required documentation to distinguish between the number of claims prepared by county veterans counselors and the number of claims prepared by veterans service officers. County veterans counselors work to assist veterans in completing applications for assistance. The applications are then forwarded to the VSOs for submission to the VA. Distinguishing between the number of claims prepared by county veterans counselors and the number of claims prepared by veterans service officers would facilitate the evaluation of the effectiveness and efficiency of the VSOs' performance.
- d. DMVA did not ensure that the 5 VSOs consistently applied the established methodology for computing compensation recoveries. As a result, MVAA was unable to effectively assess individual VSO performance in obtaining recoveries for veterans and to effectively compare individual VSO performance with other VSOs' performance.

MVC established the methodology for computing compensation recoveries for all VSOs to follow. However, our review disclosed that individual VSOs were not applying the established methodology.

We noted a similar condition in the prior audit. In response to that audit, the Veterans Affairs Directorate within DMVA stated that it agreed and that it would work to develop a clear and simple technique for recovery computations. DMVA worked with MVC to establish a process for computing recovery amounts; however, the VSOs did not consistently apply the methodology.

- e. DMVA did not ensure that the 5 VSOs properly followed the established schedule of operations*, which lists the times and days that each veterans

* See glossary at end of report for definition.

service officer will be at specific locations. As a result, DMVA could not ensure that veterans' service assistance was available for all Michigan veterans and MVAA could not ensure that the 5 VSOs were effectively performing their assistance services for all veterans.

MVC established a schedule of operations to ensure adequate veterans' service assistance throughout the State. Our comparison of the weekly activity reports for 10 veterans service officers from the 5 VSOs with the schedule of operations disclosed that the veterans service officers were not present at the location required by the schedule of operations 16.4% of the time.

RECOMMENDATION

We recommend that MVAA effectively monitor the performance of the VSOs that receive State grant funds.

AGENCY PRELIMINARY RESPONSE

MVAA agrees and informed us that the new grant agreement will require quarterly reporting of the previous months' activities by MVC via brief, written quarterly summaries of progress. These summaries will outline the work accomplished during the reporting period; work to be accomplished during the subsequent reporting period; problems, real and anticipated; and, notification of any significant deviation from previously agreed-upon work plans that should be brought to the attention of MVAA and/or its designee. According to MVAA, a copy of the quarterly report will be forwarded to the director of MVAA and the director of MVC. As previously discussed in MVAA's preliminary response to Finding 1, MVAA informed us that it is working with the third party vendor to develop a system to identify claims originated by a county veterans counselor rather than by an MVC member over the next year with the goal of having claims originating outside of MVC being easily identified and reported through E-VBMS. MVAA also informed us that it has added regional coordinators who will work to identify areas of low production and implement changes to the schedule of operation to be posted and distributed through the MVAA Web site and through the grant recipients to increase productivity. The coordinators will be responsible for preparing and submitting reports on the regions' activities and accomplishments. The coordinators will also serve as liaisons to other public or private agencies.

FINDING

3. Separate Accounting of Grant Funds

DMVA did not require the VSOs to separately account for expenditures incurred using State grant funds from total VSO expenditures. As a result, MVAA could not ensure that the VSOs expended State grant funds for only allowable veterans' advocacy and outreach activities.

DMVA's appropriations acts for fiscal years 2010-11, 2011-12, and 2012-13 (Section 501(5), Act 162, P.A. 2010; Article XIII, Part 2, Section 401(5), Act 63, P.A. 2011; and Article XIII, Part 2, Section 401(6), Act 200, P.A. 2012, respectively) state that VSOs shall use the appropriated grants only for salaries, wages, and related personnel costs; in-State training; and equipment for accredited veterans service officers and necessary support and managerial staff. These appropriations acts require DMVA to ensure that all grant fund expenditures fall within allowable categories.

We tested out-of-State training travel reimbursement forms for 6 VSOs and determined that 5 (83.3%) of the 6 VSOs did not separately account for expenditures incurred using State grant funds. Only the Veterans of Foreign Wars separately accounted for State grant funds and documented that it used State funds only for allowable veterans service officer salaries and related personnel costs.

We noted a similar condition in the prior audit. In response to that audit, the Veterans Affairs Directorate stated that it agreed and would begin the identification of reasonable, practical, and standardized accounting procedures that the grant recipients could meet. However, as of the end of our audit fieldwork, DMVA had not identified reasonable, practical, and standardized accounting procedures.

RECOMMENDATION

We recommend that MVAA require the VSOs to separately account for expenditures incurred using State grant funds from total VSO expenditures.

AGENCY PRELIMINARY RESPONSE

MVAA agrees and informed us that the new grant agreement with MVC will require the grant recipient to separately account for all expenditures incurred using State

grant funds. MVAA also informed us that the new grant agreement requires an independent accountant, identified by the grant recipient and in agreement with the MVAA, to audit funds at the end of the fiscal year. According to MVAA, the auditor must be from outside MVC and approved by the director of Targeted Outreach.

COORDINATION OF SERVICES TO MAXIMIZE VA BENEFITS FOR MICHIGAN VETERANS

COMMENT

Background: The VA's Geographic Distribution of VA Expenditures (GDx) for fiscal year 2011-12 reported that Michigan's veteran population totaled 680,417 and received benefits totaling \$2.8 billion (see summary presented as supplemental information). These benefits included compensation and pension, medical care, education and vocational rehabilitation and employment, construction and related costs, loan guaranty, general operating expenses and related costs, and insurance and indemnities expenditures. According to the VA's GDx, Michigan's rank in fiscal year 2011-12 compared with other states, the District of Columbia, Puerto Rico, and Guam was:

- 11th highest in total veteran population.
- 12th highest in total compensation and pension expenditures yet 39th highest in average compensation and pension per veteran.
- 10th highest in medical care expenditures.
- 49th highest in average total claim expenditure* per veteran.

A review performed by the VA Office of Inspector General released in 2005 indicated that demographic factors, such as branch of service, number of dependents, and officer or enlisted status, contributed to the variances in state average payments. According to the review, the VA has virtually no control over demographic factors and many of these factors have a correlation to the ranking of compensation payments by state. However,

* See glossary at end of report for definition.

the review identified one factor that the states could affect: VSO representation of veterans.

DMVA has coordinated with MVC and the Michigan Association of County Veterans Counselors (MACVC) to develop collaborative relationships within which veterans can receive service from county veterans counselors. The county veterans counselors assisted the veterans with completing application for benefit claims. The county veterans counselors then forwarded the claims to a member of MVC who filed and monitored the claim as it progressed through the VA claim submission process. This system was designed to provide the veteran with the benefit of having a local contact as well as a VSO contact who was able to work closely with the VA to resolve any problems and assist with the claim during its processing.

Audit Objective: To assess the effectiveness of DMVA's efforts to coordinate services from VSOs, State agencies, and county veterans counselors to maximize VA benefits for Michigan veterans.

Audit Conclusion: We concluded that DMVA was effective in its efforts to coordinate services from VSOs, State agencies, and county veterans counselors to maximize VA benefits for Michigan veterans. However, our assessment disclosed one reportable condition* related to training of county veterans counselors (Finding 4).

FINDING

4. Training of County Veterans Counselors

DMVA had not developed and implemented a process to ensure that all county veterans counselors received the training and accreditation necessary to provide quality services to Michigan veterans. As a result, veterans may not have received the maximum benefits available to them.

Article XIII, Part 2, Section 404, Act 63, P.A. 2011, and Article XIII, Part 2, Section 404, Act 200, P.A. 2012, state that DMVA has the responsibility to provide training support to county veteran counselors and to provide the resources necessary to provide county veterans counselors with training to ensure quality services to veterans. The Acts also state that DMVA shall work with counties toward the goal of having at least one county veterans counselor in every county in the State.

* See glossary at end of report for definition.

Our review of DMVA's efforts to provide training support for county veterans counselors disclosed:

- a. DMVA did not ensure that MACVC effectively utilized training funds granted to it by DMVA. DMVA provided funding totaling \$50,000 in fiscal year 2011-12 for MACVC to reimburse county veterans counselors for travel to annual training sessions held in Lansing. The primary function of these sessions was to assist the county veterans counselors with maintaining their accreditation with the VA. However, not all county veterans counselors were aware of the training and the opportunity to have their travel and lodging expenses reimbursed. In addition, one of the 10 county veterans counselors surveyed indicated that Lansing was too far to travel. As a result, because of the lack of awareness and the distance, not all county veterans counselors attended the necessary training to maintain their accreditation.
- b. DMVA did not work with the counties to meet the statutory goal of having at least one county veterans counselor in every county in the State. We noted that 27 (32.5%) counties, which represented 86,993 (12.8%) of the 680,417 veterans within Michigan, did not have accredited county veterans counselors. The VA Office of Inspector General review released in 2005 stated that a veteran represented by an accredited counselor received benefits of \$6,225 more per year than a veteran not represented by an accredited counselor.

DMVA had not developed and implemented a process to coordinate efforts with MACVC and the local counties to meet the statutory requirements placed on DMVA to provide training support for county veterans counselors; to provide the resources necessary to provide county veterans counselors with training to ensure quality services to veterans; and to work with counties toward the goal of having at least one county veterans counselor in every county of the State.

RECOMMENDATION

We recommend that MVAA develop and implement a process to ensure that all county veterans counselors receive the training and accreditation necessary to provide quality services and maximize benefits to Michigan veterans.

AGENCY PRELIMINARY RESPONSE

MVAA agrees and informed us that it will work in coordination with MACVC to establish training requirements that will improve services for veterans in each county that has a county veterans counselor. Also, MVAA will monitor training programs already in existence to prevent duplication of training and develop training modules for common errors that may cause delay in the delivery of benefits to a veteran.

COMPLIANCE WITH STATUTORY REPORTING REQUIREMENTS

COMMENT

Audit Objective: To assess DMVA's compliance with statutory reporting requirements.

Audit Conclusion: **We concluded that DMVA was not in compliance with statutory reporting requirements.** Our assessment disclosed one material condition:

- DMVA did not comply with legislative reporting requirements related to veterans' advice, advocacy, and assistance responsibilities (Finding 5).

FINDING

5. Legislative Reporting Requirements

DMVA did not comply with legislative reporting requirements related to veterans' advice, advocacy, and assistance responsibilities. As a result, the Legislature did not receive the necessary data to evaluate the veterans' advice, advocacy, and assistance programs operated by DMVA.

DMVA's appropriations acts for fiscal years 2010-11 and 2011-12 (Section 501, Act 162, P.A. 2010, and Article XIII, Part 2, Section 220, Act 63, P.A. 2011, respectively) identified DMVA's statutorily mandated reporting responsibilities. The reports for each fiscal year were due to the Legislature from 6 months to 9 months after the end of the fiscal year. DMVA did not submit the fiscal year 2010-11 and

2011-12 required reports to the Legislature. These reports should have included the following mandated information:

- a. Progress reports on performance requirements established for VSOs that received State grant funds.
- b. Listings of VSO expenditures by category, including a listing of officer and administrative staff salaries.
- c. Progress reports on the advocacy program operated by DMVA to provide counseling to veterans.
- d. Recommendations for corrective and penal actions for VSOs that did not meet service performance requirements.
- e. IRS Form 990 for each VSO that received State grant funds.
- f. Notifications of VSOs that did not comply with reporting requirements provided for in the appropriations acts.
- g. Listings of volunteer hours provided to each veterans home by the VSOs that received State grant funds.
- h. Reports recommending ways to improve the veterans' service delivery model in Michigan.

MVAA informed us that it was unaware of the boilerplate requirements to submit selected reports to the Legislature.

RECOMMENDATION

We recommend that MVAA comply with legislative reporting requirements related to veterans' advice, advocacy, and assistance responsibilities.

AGENCY PRELIMINARY RESPONSE

MVAA agrees and informed us that the structure of the newly created MVAA includes a director of Targeted Outreach and Performance Management who will

maintain oversight of the service provisions to Michigan veterans as appropriated. The director will be responsible for reporting the legislative reporting requirements to the MVAA Director, and the reports will be shared with the Legislature during quarterly metrics briefings.

SUPPLEMENTAL INFORMATION

Description of Summary of Veteran Population and Veterans Benefit Expenditures by State and Territory

The summary of veteran population and veterans benefit expenditures by state and territory presents a table, based on the U.S. Department of Veterans Affairs' (VA's) Geographic Distribution of VA Expenditures (GDX), of the veteran population and the direct and indirect expenditures made to veterans and on behalf of veterans in each state and territory of the United States for fiscal year 2011-12. In addition, the table presents excerpts from the fiscal year 2010-11 and 2009-10 GDXs.

The GDX is an annual report produced by the National Center for Veterans Analysis and Statistics (NCVAS) in the Office of Policy and Planning. The GDX provides VA expenditures at the state, county, and congressional district levels in seven categories. The GDX categories are Compensation and Pension, Medical Care, Education and Vocational Rehabilitation and Employment, Construction, Loan Guaranty, General Operating Expenses, and Insurance and Indemnities. Each of the GDX categories consists of funding appropriations with similar funding purposes. The expenditures included in the GDX are direct payments to veterans and their dependents (e.g., compensation and pension), operating expenses incurred for providing services to veterans (e.g., medical care programs), and overhead expenses (e.g., general administrative supports). Whenever possible, expenditures to veterans are captured at the zip code level and then aggregated to the state, county, and congressional district levels.

This summary presents data for states and territories. The detail by county and congressional district within each state is available in the full report on the VA's Web site.

We made the following observations regarding Michigan and the veterans benefits paid to veterans and on behalf of veterans:

- Although Michigan was ranked 11th in total veteran population and 12th in total compensation and pension expenditures in fiscal year 2011-12, Michigan ranked only 39th in average compensation and pension per veteran and only 49th in average total claim expenditure per veteran.
- Michigan's overall rankings did not change significantly in any of the major categories from fiscal year 2009-10 to fiscal year 2011-12.

MICHIGAN VETERANS AFFAIRS AGENCY
 Department of Military and Veterans Affairs
 Summary of Veteran Population and Veterans Benefit Expenditures by State and Territory
Fiscal Year 2011-12 and Excerpts From Fiscal Years 2010-11 and 2009-10
 Expenditures in Thousands (1)

State or Territory	Veteran Population (2)	Michigan's Rank	Compensation and Pension (3)	Michigan's Rank	Average Compensation and Pension Per Veteran	Michigan's Rank	Medical Care (4)	Michigan's Rank	Education and Vocational Rehabilitation and Employment
Fiscal Year 2011-12									
Alabama	418,035		\$ 1,362,005		\$ 3,258.11		\$ 807,118		\$ 174,031
Alaska	74,513		178,264		\$ 2,392.38		166,961		53,712
Arizona	531,910		1,179,562		\$ 2,217.60		1,059,215		306,312
Arkansas	252,279		802,324		\$ 3,180.30		724,198		73,423
California	1,844,803		4,219,749		\$ 2,287.37		4,194,246		1,393,887
Colorado	395,613		1,011,092		\$ 2,555.76		650,528		284,980
Connecticut	215,316		309,790		\$ 1,438.77		464,585		74,104
Delaware	78,687		145,450		\$ 1,848.46		122,487		29,797
District of Columbia	31,839		66,819		\$ 2,098.63		164,821		22,122
Florida	1,543,496		4,067,030		\$ 2,634.95		3,521,811		782,267
Georgia	776,205		2,090,187		\$ 2,692.83		1,260,142		388,892
Hawaii	116,844		268,665		\$ 2,299.36		177,283		132,202
Idaho	138,320		287,723		\$ 2,080.12		279,402		48,246
Illinois	764,203		1,180,084		\$ 1,544.20		1,623,723		280,998
Indiana	498,944		873,835		\$ 1,751.37		913,962		131,325
Iowa	238,236		425,818		\$ 1,787.38		471,990		67,379
Kansas	226,916		458,118		\$ 2,018.88		452,914		87,107
Kentucky	342,370		946,643		\$ 2,764.97		765,257		119,126
Louisiana	319,349		873,881		\$ 2,736.44		669,506		109,907
Maine	130,196		420,454		\$ 3,229.39		290,632		37,663
Maryland	450,401		825,856		\$ 1,833.60		813,581		273,254
Massachusetts	388,539		810,371		\$ 2,085.69		913,653		153,620
Michigan	680,417	11	1,391,510	12	\$ 2,045.09	39	1,101,665	10	171,896
Minnesota	369,295		863,698		\$ 2,338.78		865,099		133,639
Mississippi	227,335		581,099		\$ 2,556.14		560,906		78,967
Missouri	505,729		1,153,182		\$ 2,280.24		1,012,336		161,337
Montana	102,246		258,791		\$ 2,531.05		228,308		34,722
Nebraska	141,102		427,268		\$ 3,028.08		342,330		58,708
Nevada	228,393		516,007		\$ 2,259.29		631,285		85,701
New Hampshire	113,101		221,888		\$ 1,961.86		228,792		51,111
New Jersey	441,820		774,174		\$ 1,752.24		629,453		164,539
New Mexico	172,085		596,324		\$ 3,465.29		433,359		63,130
New York	918,093		1,733,092		\$ 1,887.71		2,367,824		414,224
North Carolina	771,654		2,285,260		\$ 2,961.51		1,400,930		344,205
North Dakota	56,408		127,968		\$ 2,268.61		114,838		19,458
Ohio	899,615		1,583,125		\$ 1,759.78		1,818,697		268,769
Oklahoma	342,816		1,331,604		\$ 3,884.31		626,477		121,712
Oregon	328,138		924,333		\$ 2,816.91		784,387		120,664
Pennsylvania	980,529		1,720,685		\$ 1,754.85		1,754,069		296,410
Rhode Island	71,457		167,869		\$ 2,349.22		182,716		26,971
South Carolina	421,525		1,301,455		\$ 3,087.49		801,687		200,887
South Dakota	75,930		187,591		\$ 2,470.58		255,378		28,302
Tennessee	525,594		1,399,741		\$ 2,663.16		1,085,053		197,153
Texas	1,675,689		4,959,438		\$ 2,959.64		3,249,727		979,947
Utah	151,786		295,027		\$ 1,943.70		321,117		79,200
Vermont	49,905		105,307		\$ 2,110.16		105,226		16,312
Virginia	837,051		1,904,164		\$ 2,274.85		1,067,307		744,302
Washington	607,501		1,448,669		\$ 2,384.64		897,973		310,749
West Virginia	175,497		566,535		\$ 3,228.18		540,324		42,877
Wisconsin	418,461		861,184		\$ 2,057.98		942,007		120,359
Wyoming	56,434		110,732		\$ 1,962.17		148,555		13,229
Puerto Rico	102,921		604,034		\$ 5,868.88		508,137		43,296
Guam	8,913		37,658		\$ 4,224.93		7,324		7,485
Totals	22,234,454		\$ 53,243,134		\$ 2,394.62		\$ 45,521,300		\$ 10,424,615
Fiscal Year 2010-11									
Michigan Totals	684,492	11	\$ 1,412,135	13	\$ 2,063.04	41	\$ 1,022,845	10	\$ 165,648
National Totals	22,149,469		\$ 57,596,496		\$ 2,600		\$ 43,084,762		\$ 10,630,401
Fiscal Year 2009-10									
Michigan Totals	703,970	11	\$ 1,136,035	14	\$ 1,613.75	47	\$ 1,003,427	11	\$ 138,822
National Totals	22,568,578		\$ 47,784,622		\$ 2,117		\$ 42,372,007		\$ 8,260,115

The accompanying description and notes facilitate the understanding of this summary.

Source: The Office of the Auditor General compiled this summary based on the U.S. Department of Veterans Affairs' (VA's) Geographic Distribution of VA Expenditures (GDY).

Michigan's Rank	Average Total Claim Expenditure Per Veteran (5)	Michigan's Rank	Construction	Michigan's Rank	Loan Guaranty (6)	General Operating Expenses	Michigan's Rank	Insurance and Indemnities	Michigan's Rank
	\$ 5,605.16		\$ 8,670		\$	\$ 35,910		\$ 27,826	
	\$ 5,353.91		953			5,961		4,201	
	\$ 4,784.81		22,330			109,262		36,129	
	\$ 6,341.96		24,559			34,796		15,168	
	\$ 5,316.49		121,381			181,161		164,331	
	\$ 4,920.47		71,072			65,167		29,157	
	\$ 3,940.61		2,778			14,171		24,520	
	\$ 3,783.76		1,293			4,464		5,725	
	\$ 7,970.07		259,398			1,582,239		3,618	
	\$ 5,423.47		230,489			155,450		132,383	
	\$ 4,817.31		31,441			109,235		48,953	
	\$ 4,948.06		1,605			14,112		13,187	
	\$ 4,448.89		5,144			7,549		7,882	
	\$ 4,036.63		30,303			55,509		67,099	
	\$ 3,846.36		14,324			44,156		24,296	
	\$ 4,051.38		16			10,315		18,484	
	\$ 4,398.71		796			26,874		16,196	
	\$ 5,348.10		17,729			36,018		19,410	
	\$ 5,177.08		74,955			26,676		19,162	
	\$ 5,750.94		272			19,619		8,176	
	\$ 4,246.64		14,182			28,640		36,019	
	\$ 4,832.58		27,241			33,944		39,935	
18	\$ 3,916.82	49	10,063	32		50,492	23	43,063	12
	\$ 5,043.23		3,139			81,451		31,132	
	\$ 5,370.81		14,503			29,032		11,741	
	\$ 4,600.99		23,204			145,835		31,630	
	\$ 5,103.56		34			7,513		7,935	
	\$ 5,870.27		13,127			34,294		11,914	
	\$ 5,398.56		35,326			14,176		12,825	
	\$ 4,436.67		379			6,255		8,564	
	\$ 3,549.33		1,809			16,111		47,093	
	\$ 6,350.42		7,512			16,279		12,451	
	\$ 4,917.96		34,491			126,471		92,740	
	\$ 5,223.06		20,702			93,656		48,884	
	\$ 4,649.41		6,643			6,742		3,589	
	\$ 4,080.18		25,262			2,051,087		58,438	
	\$ 6,066.79		4,315			113,146		18,439	
	\$ 5,575.05		27,502			36,216		22,224	
	\$ 3,846.05		61,840			166,462		75,898	
	\$ 5,283.66		22,648			19,058		6,527	
	\$ 5,465.94		10,671			59,585		28,335	
	\$ 6,206.66		1,537			10,485		6,004	
	\$ 5,102.70		13,760			65,267		31,117	
	\$ 5,483.78		66,077		1,588,712	213,675		107,047	
	\$ 4,581.09		14,065			50,590		10,753	
	\$ 4,545.57		6,916			4,392		3,488	
	\$ 4,439.12		13,183			67,170		56,249	
	\$ 4,374.30		50,463			63,014		42,834	
	\$ 6,551.31		9,547			204,801		10,573	
	\$ 4,596.73		12,941			64,266		33,564	
	\$ 4,828.96		3,705			1,622		3,911	
	\$ 11,226.69		62,023			24,208		2,268	
	\$ 5,886.39							883	
	\$ 4,910.80		<u>\$ 1,538,320</u>		<u>\$ 1,588,712</u>	<u>\$ 6,444,577</u>		<u>\$ 1,643,972</u>	
18	\$ 3,799	53	\$ 8,089	34	\$ 0	\$ 51,915	22	\$ 44,885	12
	\$ 5,025		\$ 1,813,427		\$ 1,391,866	\$ 6,654,720		\$ 1,687,504	
18	\$ 3,236	53	\$ 25,199	15	\$ 0	\$ 52,016	21	\$ 44,508	12
	\$ 4,361		\$ 1,618,367		\$ 804,064	\$ 6,101,273		\$ 1,694,243	

Notes to Summary of Veteran Population and Veterans Benefit Expenditures by State and Territory

- (1) Expenditure data sources: USASpending.gov for Compensation and Pension and Education and Vocational Rehabilitation and Employment benefits; Veterans Benefits Administration Insurance Center for the Insurance costs; the U.S. Department of Veterans Affairs (VA) Financial Management System for Construction, Medical Research, General Operating Expenses, and certain Compensation and Pension and Readjustment data; and the Allocation Resource Center for Medical Care costs.
- (2) Veteran population estimates, as of September 30, 2012, were produced by the VA Office of the Actuary.
- (3) The Compensation and Pension expenditures include dollars for the following programs: veterans' compensation for service-connected disabilities; dependency and indemnity compensation for service-connected deaths; veterans' pension for nonservice-connected disabilities; and burial and other benefits to veterans and their survivors.
- (4) Medical Care expenditures include dollars for medical services, medical administration, facility maintenance, educational support, research support, and other overhead items. Medical Care expenditures do not include dollars for construction or other nonmedical support. Medical Care expenditures are based on where patients live instead of where care is delivered.
- (5) Average Total Claim Expenditure Per Veteran is the total of Compensation and Pension, Medical Care, and Education and Vocational Rehabilitation and Employment divided by the Veteran Population.
- (6) Prior to fiscal year 2007-08, Loan Guaranty expenditures were included in the Education and Vocational Rehabilitation and Employment programs. Currently, all Loan Guaranty expenditures are attributed to Travis County, Texas, where all Loan Guaranty payments are processed. The VA will continue to improve data collection for future GDX reports to better distribute loan expenditures at the state, county and congressional district levels.

GLOSSARY

Glossary of Abbreviations and Terms

activity report	A report established by MVAA that tracks VSO activities such as telephone calls taken and claims submitted to the VA.
county veterans counselor	An employee of a county government who assists veterans in obtaining information, including service history and medical records, necessary to obtain benefits from the VA.
DMVA	Department of Military and Veterans Affairs.
effectiveness	Success in achieving mission and goals.
efficient	To achieve the most outputs and outcomes practical with the minimum amount of resources.
E-VBMS	electronic veterans benefits management system.
GDx	Geographic Distribution of VA Expenditures.
MACVC	Michigan Association of County Veterans Counselors.
material condition	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
mission	The main purpose of a program or an entity or the reason that the program or the entity was established.
MVAA	Michigan Veterans Affairs Agency.

MVC	Michigan Veterans Coalition.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
performance standard	A desired level of output or outcome.
PVA	Paralyzed Veterans of America.
recovery	The monetary benefits received by a veteran from the VA.
recovery report	A report established by MVC to track the recoveries from claims sent to the VA.
reportable condition	A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.
schedule of operations	A schedule showing MVC's presence in all 83 Michigan counties. It specifically lists the times and days of the

month that each veterans service officer will be at specific locations. The schedule changes from time to time based on periodic reviews of efficiency and effectiveness by MVC.

VA

U.S. Department of Veterans Affairs.

VA claim
expenditures

Expenditures made by the VA that are for payments to veterans as a result of benefits they have earned during military service. Types of benefits that veterans can qualify for are compensation payments for disabilities, home loans, education and training reimbursements, life insurance, supplemental pension income for wartime veterans, and vocational rehabilitation and employment services.

veterans service
officer

An employee of a VSO who assists veterans in obtaining information, including service history and medical records, necessary to obtain benefits from the VA.

veterans service
organization (VSO)

An organization that is federally chartered by the VA for the purposes of preparing, presenting, and prosecuting veteran claims under the laws administered by the VA.

5 VSOs

American Legion, Veterans of Foreign Wars, Disabled American Veterans, Marine Corps League, and Military Order of the Purple Heart.

