

PERFORMANCE AND FINANCIAL AUDIT
OF THE
VETERANS AFFAIRS DIRECTORATE
DEPARTMENT OF MILITARY AND VETERANS AFFAIRS
October 1, 1995 through September 30, 1997

51-105-98

EXECUTIVE DIGEST

VETERANS AFFAIRS DIRECTORATE

INTRODUCTION

This report contains the results of our performance* and financial* audit of the Veterans Affairs Directorate, Department of Military and Veterans Affairs. The financial portion of our audit covered the period October 1, 1995 through September 30, 1997.

AUDIT PURPOSE

This performance and financial audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*. Financial audits are conducted at various intervals to permit the Auditor General to express an opinion on the State's financial statements.

BACKGROUND

The Veterans Affairs Directorate is responsible for managing the administrative functions of the Michigan Veterans' Trust Fund. The Trust Fund provides grants for emergency needs of veterans. The Trust Fund also provides tuition grants to dependents of disabled or deceased veterans. A seven-member Board of Trustees governs the Trust Fund. For fiscal year 1996-97, Trust Fund expenditures totaled \$3.6 million. For fiscal year 1996-97, grants for emergency needs totaled \$1.5 million and tuition grants totaled \$938,000.

* See glossary on page 33 for definition

The Directorate is also responsible for managing the administrative functions of the Vietnam Veterans' Memorial Monument Fund. The Monument Fund is governed by a nine-member Commission. The purpose of the Commission is to oversee the financing and construction of a memorial monument for Michigan veterans who died or are listed as missing in action as a result of the Vietnam conflict. For fiscal year 1996-97, Monument Fund expenditures totaled \$116,593.

In addition, the Directorate is responsible for overseeing grants to 12 veterans' service organizations in accordance with appropriations acts. The Directorate is also responsible for the supervision and direction of the two State veterans' homes, which are located in Grand Rapids and Marquette.

As of September 30, 1998, the Directorate had 10 employees in its central office.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess the effectiveness of the Directorate's operations in providing grants for veterans' needs.

Conclusion: We concluded that the Directorate's operations in providing grants for veterans' needs were generally effective. However, we noted a reportable condition* related to administering the Tuition Grant Program (Finding 1).

Audit Objective: To assess the effectiveness of the Directorate's administration of the Vietnam Veterans' Memorial Monument Fund.

* See glossary on page 33 for definition

Conclusion: We concluded that the Directorate's administration of the Vietnam Veterans' Memorial Monument Fund was reasonably effective. However, we noted a reportable condition related to fundraising for the Vietnam Veterans' Memorial Monument (Finding 2).

Audit Objective: To assess the adequacy of the Trust Fund's and the Monument Fund's internal control structures* .

Conclusion: Our assessment of the Trust Fund's and the Monument Fund's internal control structures did not disclose any material weaknesses*. However, we noted reportable conditions related to inventory control and supporting documentation for contract payments (Findings 3 and 4).

Audit Objective: To assess the Trust Fund's and the Monument Fund's compliance with applicable statutes, the *Michigan Administrative Code*, and State policies and procedures that could have a material effect on the Trust Fund's and the Monument Fund's financial statements.

Conclusion: Our assessment of the Trust Fund's and the Monument Fund's compliance with applicable statutes, the *Michigan Administrative Code*, and State policies and procedures did not disclose any instances of material noncompliance*.

Audit Objective: To audit the Trust Fund's and the Monument Fund's financial statements for the fiscal years ended September 30, 1997 and September 30, 1996.

* See glossary on page 33 for definition

Conclusion: We expressed an unqualified opinion on the financial statements.

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Veterans Affairs Directorate. Also, our audit scope was to examine the financial records for the period October 1, 1995 through September 30, 1997. Our audit included only the central office activities of the Directorate. Our audit was conducted in accordance with generally accepted auditing standards and *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.

Our methodology included the testing of records covering the period October 1, 1995 through September 30, 1997. We conducted a preliminary survey of the Directorate's operations. This included discussions with the Directorate's staff and a review of policies, operating procedures, State statutes, and administrative rules. We reviewed procedures and tested records related to the Directorate's operation in providing grants for veterans' needs. In addition, we analyzed the Directorate's activities related to its administration of the Vietnam Veterans' Memorial Monument Fund.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our report contains 4 findings and corresponding recommendations. The Department's preliminary response indicated that it agreed and would comply with all 4 recommendations.

The Directorate had complied with all 8 of the prior audit recommendations included within the scope of our current audit.

Major General E. Gordon Stump, Director
Department of Military and Veterans Affairs
2500 South Washington Avenue
Lansing, Michigan

Dear General Stump:

This is our report on the performance and financial audit of the Veterans Affairs Directorate, Department of Military and Veterans Affairs. The financial portion of our audit covered the period October 1, 1995 through September 30, 1997.

This report contains our executive digest; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and independent auditor's reports on the internal control structure, on compliance with laws and regulations, and on the financial statements. This report also contains the Michigan Veterans' Trust Fund and the Vietnam Veterans' Memorial Monument Fund financial statements and notes to financial statements, 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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Description of Agency

The Veterans Affairs Directorate is responsible for managing the administrative functions of the Michigan Veterans' Trust Fund. Act 9, P.A. 1946, First Extra Session (Sections 35.601 - 35.610 of the *Michigan Compiled Laws*), established the Trust Fund.

The Trust Fund was transferred to the Department of Military and Veterans Affairs in September 1995 by Executive Order 1995-15. The Trust Fund provides grants for emergency needs of veterans. The Trust Fund also provides tuition grants to dependents of disabled or deceased veterans pursuant to Sections 35.111 - 35.112 of the *Michigan Compiled Laws*. A seven-member Board of Trustees governs the Trust Fund. For fiscal year 1996-97, Trust Fund expenditures totaled \$3.6 million. For fiscal year 1996-97, grants for emergency needs totaled \$1.5 million and tuition grants totaled \$938,000.

The Directorate is also responsible for managing the administrative functions of the Vietnam Veterans' Memorial Monument Fund. The Monument Fund is governed by a nine-member Commission. Act 234, P.A. 1988 (Sections 35.1051 - 35.1057 of the *Michigan Compiled Laws*), established the Monument Fund and the Monument Fund Commission. The purpose of the Commission is to oversee the financing and construction of a memorial monument for Michigan veterans who died or are listed as missing in action as a result of the Vietnam conflict. The Trust Fund provides administrative support for the Monument Fund. For fiscal year 1996-97, Monument Fund expenditures totaled \$116,593.

In addition, the Directorate is responsible for overseeing grants to 12 veterans' service organizations in accordance with appropriations acts. The Directorate is also responsible for the supervision and direction of the two State veterans' homes, which are located in Grand Rapids and Marquette.

As of September 30, 1998, the Directorate had 10 employees in its central office.

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

Audit Objectives

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

1. To assess the effectiveness of the Directorate's operations in providing grants for veterans' needs.
2. To assess the effectiveness of the Directorate's administration of the Vietnam Veterans' Memorial Monument Fund.
3. To assess the adequacy of the Michigan Veterans' Trust Fund's and the Monument Fund's internal control structures.
4. To assess the Trust Fund's and the Monument Fund's compliance with applicable statutes, the *Michigan Administrative Code*, and State policies and procedures that could have a material effect on the Trust Fund's and the Monument Fund's financial statements.
5. To audit the Trust Fund's and the Monument Fund's financial statements for the fiscal years ended September 30, 1997 and September 30, 1996.

Audit Scope

Our audit scope was to examine the program and other records of the Veterans Affairs Directorate. Also, our audit scope was to examine the financial records for the period October 1, 1995 through September 30, 1997. Our audit included only the central office activities of the Directorate. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Audit Methodology

Our audit procedures were performed between July and October 1998 and included the testing of records covering the period October 1, 1995 through September 30, 1998. We conducted a preliminary survey of the Directorate's operations. This included discussions with the Directorate's staff and a review of policies, operating procedures, State statutes, and administrative rules. We reviewed procedures and tested records related to emergency grants to veterans and their dependents. We also reviewed procedures and tested records for tuition grants to dependents of disabled or deceased veterans. In addition, we analyzed the Directorate's activities related to its administration of the Vietnam Veterans' Memorial Monument Fund.

Agency Responses and Prior Audit Follow-Up

Our report contains 4 findings and corresponding recommendations. The Department's preliminary response indicated that it agreed and would comply with all 4 recommendations.

The agency preliminary response which 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.

The Directorate had complied with all 8 of the prior audit recommendations included within the scope of our current audit.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

GRANT OPERATIONS

COMMENT

Audit Objective: To assess the effectiveness of the Veterans Affairs Directorate's operations in providing grants for veterans' needs.

Conclusion: We concluded that the Directorate's operations in providing grants for veterans' needs were generally effective. However, we noted a reportable condition related to administering the Tuition Grant Program.

FINDING

1. Tuition Grant Program

The Michigan Veterans' Trust Fund had not established and distributed written policies for determining which fees charged by Michigan colleges and universities should be considered in lieu of tuition and, therefore, be reimbursed by the Trust Fund.

Section 35.111 of the *Michigan Compiled Laws* provides for tuition assistance for the children of qualifying Michigan veterans. Section 35.111(3) of the *Michigan Compiled Laws* provides that eligible persons admitted to a Michigan tax supported institution before October 1, 1996 shall not be required to pay tuition or any other fee which takes the place of tuition during the time the person is an undergraduate student. Section 35.111(4) of the *Michigan Compiled Laws* provides that eligible persons admitted to any Michigan institution after October 1, 1996 shall not be required to pay the first \$2,800 per year of tuition or any other fee which takes the place of tuition during the time the person is a full-time undergraduate student.

Michigan Administrative Code R 35.654 provides that fees paid shall be at the minimum resident tuition rate, including nonelective fees applying to the enrolled student body.

For fiscal year 1996-97, tuition grant payments from the Trust Fund totaled approximately \$938,000.

The Trust Fund has not distributed any guidelines to colleges and universities regarding fees which can be reimbursed for the tuition grant program. As a result, the Trust Fund lacks assurance that fees are being consistently reimbursed.

Our review of tuition grant charges and payments for a sample of 50 students at 28 institutions disclosed that 18 institutions were reimbursed for fees other than tuition. The types of fees charged by institutions and reimbursed by the Trust Fund varied significantly. Fees reimbursed included charges for student activities, student life, student services, transportation, and matriculation.

Our sample review also disclosed that reimbursements for registration fees for students in the program were not consistently made. Four institutions incorporated a registration fee into a tuition credit hour fee or a matriculation fee, and the Trust Fund reimbursed these fee charges. Three other institutions charged students registration fees, and the Trust Fund did not reimburse these fee charges.

Establishing and distributing formal policies on which fees should be reimbursed would help ensure that tuition grant payments are made in compliance with statutory requirements and on a consistent basis.

RECOMMENDATION

We recommend that the Trust Fund establish and distribute written policies for determining which fees charged by Michigan colleges and universities should be considered in lieu of tuition and, therefore, be reimbursed by the Trust Fund.

AGENCY PRELIMINARY RESPONSE

The Trust Fund agreed with this recommendation. The Trust Fund agreed that tuition grant payments should be made in compliance with statutory requirements and on a consistent basis. The ever expanding variety, complexity, labeling, and bundling of fees by the various colleges and universities defies any attempt by the Trust Fund to equitably define and enforce which fees may or may not be considered in lieu of tuition. The Trust Fund is adopting the position that all nonelective fees may be construed as in lieu of tuition. The administrative rules

allow reimbursement in this manner and the Trust Fund intends to treat all fees as reimbursable from this point forward.

VIETNAM VETERANS' MEMORIAL MONUMENT FUND

COMMENT

Audit Objective: To assess the effectiveness of the Directorate's administration of the Vietnam Veterans' Memorial Monument Fund.

Conclusion: We concluded that the Directorate's administration of the Vietnam Veterans' Memorial Monument Fund was reasonably effective. However, we noted a reportable condition related to fundraising for the Vietnam Veterans' Memorial Monument.

FINDING

2. Fundraising for Memorial Monument

The Monument Fund Commission had not achieved the fundraising goal for the Vietnam Veterans' Memorial Monument.

The Vietnam Veterans' Memorial Monument Fund was created by Act 234, P.A. 1988 (Sections 35.1051 - 35.1057 of the *Michigan Compiled Laws*), and the Monument Fund Commission was established to oversee the financing and construction of a permanent monument. The Directorate provides administrative support for the Monument Fund. This support includes assistance in the development, implementation, and monitoring of fundraising projects.

The enabling Act for the Monument Fund did not provide for any funding for the Monument project. In fiscal year 1996-97, the Department of Military and Veterans Affairs received an appropriation of \$1.0 million for the Monument. The remaining funding of approximately \$1.3 million needed to complete the design and construction of the Monument must be provided by fundraising activities.

For fiscal years 1996-97 and 1997-98, the primary fundraising activities for the Monument project were performed by three contractors. The goal for these

contractor activities was to raise approximately \$1.3 million for the Monument project. The contractors were responsible for advertising, development of fundraising strategies, volunteer training, and solicitation of donations through direct mailings to potential donors. The contractor fundraising activities generated a large number of donations, but they were not effective in meeting the total fundraising goal. For fiscal years 1996-97 and 1997-98, the total net revenue from fundraising activities was approximately \$232,000.

As of September 1998, the Monument Fund had a fund balance of approximately \$115,000 and construction of the Monument had not begun. Directorate administrative staff informed us that construction of the Monument would not begin until an additional \$1.2 million was raised for the project.

At the time of our review, the Commission, with the assistance of the Directorate, was developing and planned to implement new fundraising projects for the Monument. To effectively achieve the fundraising goal for the Monument project, alternative fundraising strategies should continue to be developed.

RECOMMENDATION

We recommend that the Monument Fund Commission continue to develop alternative fundraising strategies to achieve the fundraising goal for the Vietnam Veterans' Memorial Monument.

AGENCY PRELIMINARY RESPONSE

The Department informed us that the Monument Fund Commission agreed with this recommendation and has implemented alternative fundraising strategies. Two promising initiatives include a Path of Life brick buying campaign and the establishment of a pro-bono and in-kind donor format for products and services applicable to identified project costs.

INTERNAL CONTROL STRUCTURE

COMMENT

Audit Objective: To assess the adequacy of the Trust Fund's and the Monument Fund's internal control structures.

Conclusion: Our assessment of the Trust Fund's and the Monument Fund's internal control structures did not disclose any material weaknesses. However, we noted reportable conditions related to inventory control and supporting documentation for contract payments.

FINDING

3. Inventory Control

The Directorate had not reconciled its inventory records for Vietnam veterans' memorial lapel pins with inventories of pins held by volunteers.

The Monument Fund Commission established a fundraising project in November 1996 for the sale of Vietnam veterans' memorial lapel pins at \$26.49 per pin. For this project, the Directorate issued a total inventory of 4,900 lapel pins to 24 volunteers. The volunteers sell pins and send the checks received to the Directorate. For the period July 1997 through June 1998, revenue received from sales of lapel pins totaled approximately \$11,000.

The Directorate maintains inventory records for the pins issued to volunteers. The Directorate has not updated its inventory records for the sales of pins and reconciled its inventory balances with inventories of pins held by volunteers.

Sound internal control requires that inventory records for items issued for sale be periodically reconciled with inventory balances on hand. This helps ensure that the correct amount of revenue is received.

RECOMMENDATION

We recommend that the Directorate periodically reconcile its inventory records for Vietnam veterans' memorial lapel pins with inventories of pins held by volunteers.

AGENCY PRELIMINARY RESPONSE

The Directorate agreed with this recommendation and will periodically reconcile inventory records as recommended.

FINDING

4. Supporting Documentation for Contract Payments

The Directorate did not always obtain complete supporting documentation before issuing payments for contractual services.

The Directorate contracted for a direct mailing project to solicit donations for the Vietnam Veterans' Memorial Monument. For this project, the contractor mailed solicitation materials to prospective donors.

The contractor submitted billings for the mailings, including postage costs. Our review of contract payments disclosed that the contractor did not always include postage receipts to support postage costs billed. For three billings, the Directorate issued payments totaling \$11,551 for postage costs for which receipts had not been submitted.

Sound internal control requires that complete supporting documentation be obtained prior to issuing vendor payments.

RECOMMENDATION

We recommend that the Directorate obtain complete supporting documentation before issuing payments for contractual services.

AGENCY PRELIMINARY RESPONSE

The Directorate agreed with this recommendation. As a matter of clarification, the Directorate acknowledged that, while invoice processing was difficult to track because of U.S. Postal Service requirements for prepayment, there was only \$804 in unaccounted billing credits or postage receipts from the vendor. In the future, there will be no payments made for postage without original postal receipts.

COMPLIANCE WITH LAWS AND REGULATIONS

COMMENT

Audit Objective: To assess the Trust Fund's and the Monument Fund's compliance with applicable statutes, the *Michigan Administrative Code*, and State policies and procedures that could have a material effect on the Trust Fund's and the Monument Fund's financial statements.

Conclusion: Our assessment of the Trust Fund's and the Monument Fund's compliance with applicable statutes, the *Michigan Administrative Code*, and State policies and procedures did not disclose any instances of material noncompliance.

FINANCIAL ACCOUNTING AND REPORTING

COMMENT

Audit Objective: To audit the Trust Fund's and the Monument Fund's financial statements for the fiscal years ended September 30, 1997 and September 30, 1996.

Conclusion: We expressed an unqualified opinion on the financial statements.

Independent Auditor's Report on
the Internal Control Structure

October 2, 1998

Major General E. Gordon Stump, Director
Department of Military and Veterans Affairs
2500 South Washington Avenue
Lansing, Michigan

Dear General Stump:

We have audited the financial statements of the Michigan Veterans' Trust Fund and the Vietnam Veterans' Memorial Monument Fund, Department of Military and Veterans Affairs, as of and for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our report thereon dated October 2, 1998.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the Funds and the management of the Department of Military and Veterans Affairs are responsible for establishing and maintaining internal control structures, which operate in conjunction with the Statewide internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements for the fiscal years ended September 30, 1997 and September 30, 1996, we obtained an understanding of the Michigan Veterans' Trust Fund's and the Vietnam Veterans' Memorial Monument Fund's internal control structures. With respect to the internal control structures, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structures and their operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structures that, in our judgment, could adversely affect the Michigan Veterans' Trust Fund's and the Vietnam Veterans' Memorial Monument Fund's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are more fully described in Findings 3 and 4.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure policies and procedures would not necessarily disclose all matters in the internal control structures that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe neither of the reportable conditions defined above is a material weakness.

AUDITOR GENERAL

Independent Auditor's Report on
Compliance With Laws and Regulations

October 2, 1998

Major General E. Gordon Stump, Director
Department of Military and Veterans Affairs
2500 South Washington Avenue
Lansing, Michigan

Dear General Stump:

We have audited the financial statements of the Michigan Veterans' Trust Fund and the Vietnam Veterans' Memorial Monument Fund, Department of Military and Veterans Affairs, as of and for the fiscal years ended September 30, 1997 and September 30, 1996 and have issued our report thereon dated October 2, 1998.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Michigan Veterans' Trust Fund and the Vietnam Veterans' Memorial Monument Fund is the responsibility of the Funds' management and the Department of Military and Veterans Affairs management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Funds' compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

AUDITOR GENERAL

Independent Auditor's Report on
the Financial Statements

October 2, 1998

Major General E. Gordon Stump, Director
Department of Military and Veterans Affairs
2500 South Washington Avenue
Lansing, Michigan

Dear General Stump:

We have audited the accompanying balance sheets of the Michigan Veterans' Trust Fund and the Vietnam Veterans' Memorial Monument Fund, Department of Military and Veterans Affairs, as of September 30, 1997 and September 30, 1996 and the related statements of revenues, expenditures, and changes in fund balance and statement of revenues, expenditures, and changes in fund balance - budget and actual for the fiscal years then ended. These financial statements are the responsibility of the Funds' management and the Department of Military and Veterans Affairs management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1b, the accompanying financial statements present only the Michigan Veterans' Trust Fund and the Vietnam Veterans' Memorial Monument Fund and are not intended to present fairly the financial position and results of operation of the State of Michigan, its special revenue funds, or its expendable trust funds.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Veterans' Trust Fund and the Vietnam Veterans' Memorial Monument Fund as of September 30, 1997 and September 30, 1996 and the results of their operations for the fiscal years then ended on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 2, 1998 on our consideration of the Funds' internal control structures and a report dated October 2, 1998 on their compliance with laws and regulations.

AUDITOR GENERAL

MICHIGAN VETERANS' TRUST FUND
Department of Military and Veterans Affairs
Balance Sheet
As of September 30

	1997	1996
ASSETS		
Current Assets:		
Equity in State Treasurer's Common Cash	\$ 6,804,289	\$
Cash and cash equivalents		51
Advances to county treasurer	216,644	210,373
Unamortized discount	3	
Accounts receivable:		
Special Assessment Deferment Fund (Note 4)		89,737
Accrued investment interest	586,993	693,691
Total Current Assets	\$ 7,607,929	\$ 993,852
Emergency loan fund (Note 5)	25,517	26,987
Investments in government bonds and notes - at cost (Note 3)	43,783,112	49,375,330
Amounts due - Special Assessment Deferment Fund (Note 4)		991,086
Total Assets	\$ 51,416,558	\$ 51,387,255
LIABILITIES AND FUND BALANCES		
Current Liabilities:		
Warrants outstanding	\$ 120,567	\$ 46,115
Accounts payable and other accrued liabilities	503,032	646,556
Amounts due to other funds	7,912	230,793
Amounts due to component units	65,860	84,000
Total Current Liabilities	\$ 697,371	\$ 1,007,464
Fund Balance Reserves:		
Emergency loan fund (Note 5)	\$ 25,517	\$ 26,987
Encumbrances and restricted revenue (Note 8)	1,016	159
Loan to Special Assessment Deferment Fund - noncurrent (Note 4)		991,086
Funds held as permanent investments (Notes 2 and 8)	50,000,000	49,000,000
Total Reserved Funds	\$ 50,026,533	\$ 50,018,232
Unreserved Fund Balance (Note 8)	692,654	361,558
Total Fund Balance	\$ 50,719,187	\$ 50,379,790
Total Liabilities and Fund Balance	\$ 51,416,558	\$ 51,387,255

The accompanying notes are an integral part of the financial statements.

MICHIGAN VETERANS' TRUST FUND
Department of Military and Veterans Affairs
Statement of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Years Ended September 30

	<u>1997</u>	<u>1996</u>
REVENUES		
Interest earnings - State Treasurer's Common Cash	\$ 154,322	\$ 103,963
Interest income - government bonds and notes	3,527,664	3,493,673
Amortization discount (premium) on government bonds and notes, net	110,765	103,204
Gain (loss) on sale or redemption of government bonds and notes	38,995	38,468
Correction of prior year expenditures	14,594	35,754
Miscellaneous revenue	<u>57,461</u>	<u>40,179</u>
 Total Revenues	 <u>\$ 3,903,800</u>	 <u>\$ 3,815,242</u>
EXPENDITURES		
State office - administrative expenses	\$ 648,120	\$ 725,278
County committees - administrative expenses	516,405	605,571
Committee grants to veterans, widows, or dependents	1,500,865	1,021,944
Tuition grants for children of deceased or disabled veterans (Note 6)	<u>938,720</u>	<u>923,140</u>
 Total Expenditures	 <u>\$ 3,604,110</u>	 <u>\$ 3,275,933</u>
 Excess of Revenues Over (Under) Expenditures	 <u>\$ 299,690</u>	 <u>\$ 539,309</u>
OTHER FINANCING SOURCES (USES)		
Operating Transfers In:		
From General Fund	<u>\$ 85,377</u>	<u>\$</u>
 Total Operating Transfers In	 <u>\$ 85,377</u>	 <u>\$</u>
Operating Transfers Out:		
To General Fund and other funds	<u>\$ (45,670)</u>	<u>\$ (13,500)</u>
 Total Operating Transfers Out	 <u>\$ (45,670)</u>	 <u>\$ (13,500)</u>
 Total Other Financing Sources (Uses)	 <u>\$ 39,707</u>	 <u>\$ (13,500)</u>
 Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	 <u>\$ 339,397</u>	 <u>\$ 525,809</u>
 Fund Balance - Beginning of fiscal year	 <u>50,379,790</u>	 <u>49,853,981</u>
 Fund Balance - End of fiscal year	 <u><u>\$ 50,719,187</u></u>	 <u><u>\$ 50,379,790</u></u>

The accompanying notes are an integral part of the financial statements.

MICHIGAN VETERANS' TRUST FUND
Department of Military and Veterans Affairs
Statement of Revenues, Expenditures,
and Changes in Fund Balance - Budget and Actual
Fiscal Years Ended September 30

Statutory/Budgetary Basis	1997			1996		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES AND OTHER SOURCES						
Operating revenue	\$ 3,903,800	\$ 3,903,800	\$ 0	\$ 3,815,242	\$ 3,815,242	\$ 0
Operating transfers in	85,377	85,377	0			0
Total Revenues and Other Sources	<u>\$ 3,989,177</u>	<u>\$ 3,989,177</u>	<u>\$ 0</u>	<u>\$ 3,815,242</u>	<u>\$ 3,815,242</u>	<u>\$ 0</u>
EXPENDITURES, OPERATING TRANSFERS OUT, AND ENCUMBRANCES						
Expenditures and encumbrances	\$ 4,643,630	\$ 3,605,126	\$ 1,038,504	\$ 4,711,500	\$ 3,276,092	\$ 1,435,408
Operating transfers out	45,670	45,670		13,500	13,500	
Total Expenditures, Operating Transfers Out, and Encumbrances	<u>\$ 4,689,300</u>	<u>\$ 3,650,796</u>	<u>\$ 1,038,504</u>	<u>\$ 4,725,000</u>	<u>\$ 3,289,592</u>	<u>\$ 1,435,408</u>
Revenues and Other Sources Over (Under) Expenditures and Other Uses (Statutory/Budgetary Basis)	<u>\$ (700,123)</u>	<u>\$ 338,381</u>	<u>\$ 1,038,504</u>	<u>\$ (909,758)</u>	<u>\$ 525,650</u>	<u>\$ 1,435,408</u>
Reconciling Items:						
Encumbrances at September 30		<u>\$ 1,016</u>			<u>\$ 159</u>	
Net Reconciling Items		<u>\$ 1,016</u>			<u>\$ 159</u>	
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses (GAAP Basis)		\$ 339,397			\$ 525,809	
FUND BALANCE (GAAP Basis)						
Beginning balance		<u>50,379,790</u>			<u>49,853,981</u>	
Ending balance (GAAP Basis)		<u>\$ 50,719,187</u>			<u>\$ 50,379,790</u>	

The accompanying notes are an integral part of the financial statements.

VIETNAM VETERANS' MEMORIAL MONUMENT FUND

Department of Military and Veterans Affairs

Balance Sheet

As of September 30

	<u>1997</u>	<u>1996</u>
ASSETS		
Current Assets:		
Equity in State Treasurer's Common Cash	\$ 148,875	\$ 89,477
Other current assets	<u>50</u>	<u>50</u>
Total Current Assets	<u>\$ 148,925</u>	<u>\$ 89,527</u>
LIABILITIES AND FUND BALANCES		
Current Liabilities:		
Warrants outstanding	\$ 377	\$ 120
Accounts payable	<u>20,766</u>	<u>7,409</u>
Total Current Liabilities	\$ 21,143	\$ 7,529
Fund Balance	<u>127,782</u>	<u>81,997</u>
Total Liabilities and Fund Balances	<u>\$ 148,925</u>	<u>\$ 89,527</u>

The accompanying notes are an integral part of the financial statements.

VIETNAM VETERANS' MEMORIAL MONUMENT FUND
 Department of Military and Veterans Affairs
 Statement of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Years Ended September 30

	1997	1996
REVENUES		
Interest earnings - State Treasurer's Common Cash	\$ 6,590	\$ 3,844
Donations	155,788	34,772
Total Revenues	\$ 162,378	\$ 38,616
EXPENDITURES		
Fundraising contracts	\$ 58,353	\$ 6,969
Architect fees	23,343	
Miscellaneous	34,897	7,193
Total Expenditures	\$ 116,593	\$ 14,162
Excess of Revenues Over (Under) Expenditures	\$ 45,785	\$ 24,454
Fund Balance - Beginning of fiscal year	81,997	57,544
Fund Balance - End of fiscal year	\$ 127,782	\$ 81,997

Notes to Financial Statements

Note 1 Significant Accounting Policies

a. Reporting Entity

The accompanying financial statements report the financial position and results of operations of the Michigan Veterans' Trust Fund and the Vietnam Veterans' Memorial Monument Fund, Department of Military and Veterans Affairs, as of and for the fiscal years ended September 30, 1997 and September 30, 1996. These funds are part of the State of Michigan's reporting entity and are reported as a special revenue fund and an expendable trust fund, respectively, in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The footnotes accompanying these financial statements relate directly to the Michigan Veterans' Trust Fund and the Vietnam Veterans' Memorial Monument Fund. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Treasurer's Common Cash, and Pension Benefits and Other Postemployment Benefits.

b. Basis of Accounting and Presentation

The financial statements contained in this report are prepared on the modified accrual basis of accounting. The modified accrual basis of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial statements present only the Michigan Veterans' Trust Fund and the Vietnam Veterans' Memorial Monument Fund. Accordingly, they are not intended to present fairly the financial position and results of operations of the State of Michigan, its special revenue funds, or its expendable trust funds.

Note 2 Description of Funds

Act 9, P.A. 1946, First Extra Session (Sections 35.601 - 35.610 of the *Michigan Compiled Laws*), established the Michigan Veterans' Trust Fund and

provided it with a nonexpendable trust fund principal of \$50 million. The purpose of the fund is to account for the earnings of the Trust Fund, consisting primarily of interest earned on the \$50 million Trust Fund principal, which is designated for disbursements for the emergent needs of Michigan veterans. A seven-member Board of Trustees governs the Trust Fund.

Section 35.601(c) of the *Michigan Compiled Laws* (Act 119, P.A. 1976) transferred \$48.2 million of the principal and accumulated earnings of the Trust Fund to the State General Fund. The Act provided for the restoration of the principal to \$49 million and appropriation for income on the unpaid portion of the corpus. Restoration payments began in 1979 and concluded with a payment of \$11.5 million in August 1994. The Trust Fund principal of \$49 million had been established as a reserve for funds held as permanent investments until repayment of the Special Assessment Deferment Fund in fiscal year 1996-97, at which time the principal was restored to \$50 million (see Note 4).

Act 234, P.A. 1988 (Sections 35.1051 - 35.1057 of the *Michigan Compiled Laws*), established the Vietnam Veterans' Memorial Monument Fund and the Monument Fund Commission. The purpose of the Commission is to oversee the financing and construction of a memorial monument dedicated to Vietnam veterans from Michigan who died or are listed as missing in action as a result of the Vietnam conflict. The Commission may accept, on behalf of the Monument Fund, public or private donations for the financing or construction of the monument. A nine-member Commission governs the Monument Fund.

Note 3 Investments

Governmental Accounting Standards Board (GASB) Statement No. 3 requires certain disclosures regarding policies and practices with respect to investments and the credit risk associated with them.

In accordance with Statement No. 3, investments are classified into three categories of credit risk, as follows:

Category 1: Insured or registered, or securities held by the entity or its agent in the entity's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the entity's name. (This includes the portion of the carrying amount of any repurchase agreement that exceeds the market value of the underlying securities.)

The following table shows the carrying amounts and market values of the Michigan Veterans' Trust Fund's investments by fiscal year and in the GASB category of risk:

Fiscal Year-End September 30	GASB Category 1	Total Carrying Value	Market Value
1997	\$ 43,783,115	\$ 43,783,115	\$ 45,317,511
1996	\$ 49,375,330	\$ 49,375,330	\$ 50,447,683

All investments were made in fixed income marketable governmental issues. Section 35.605 of the *Michigan Compiled Laws* authorizes the State Administrative Board to direct the investment of the Michigan Veterans' Trust Fund in various government bonds or obligations.

Note 4 Special Assessment Deferment Fund

Act 146, P.A. 1976, and Act 281, P.A. 1982, authorized loans of \$3,250,000 from the Michigan's Veterans' Trust Fund to the Special Assessment Deferment Fund (administered by the Department of Treasury). Reserves of fund balance were established for the long-term portion of loans still outstanding at September 30, 1996 in the amount of \$991,086. The loan was

paid in full by an appropriation in fiscal year 1996-97 and reserves of the fund balance were restored to the corpus of the Trust Fund.

Note 5 Emergency Loan Fund

A fund of \$200,000 was established by Act 9, P.A. 1946, from the principal of the Michigan Veterans' Trust Fund. The money in the loan fund is to be disbursed by the Michigan Veterans' Trust Fund Board of Trustees as loans to Michigan veterans or their legal dependents, or to children of deceased veterans who may be taking courses of instruction under any State or federal program. The loan fund is not accounted for as a separate fund but is included within the Michigan Veterans' Trust Fund group of accounts.

Note 6 Tuition Grant Program

Act 245, P.A. 1935, established a student tuition grant program for children of deceased or disabled veterans. Act 371, P.A. 1965, assigned the administration of the Act to the Michigan Veterans' Trust Fund. The tuition grant program is funded from the surplus and earnings of the Trust Fund.

Note 7 Retirement Contributions

Eligible Michigan Veterans' Trust Fund employees are members of the State Employees' Retirement System. The Trust Fund contributes to the System based on a percentage of direct payroll costs. Some county committee employees are also members of the State Employees' Retirement System. The county committees contribute to the System from their administrative funds. The Trust Fund's direct payroll costs were \$692,203 and \$552,645 for fiscal years 1996-97 and 1995-96, respectively. The Trust Fund's contributions to the System for fiscal years 1996-97 and 1995-96 were \$78,309 and \$63,057, respectively.

Note 8 Fund Balance Reserves

Budgetary carry-forwards represent unused spending authority which continues to be available in the new year and appears on the balance sheet as a reservation of fund balance. "Reservations" are provided for encumbered funds and funds restricted for a special purpose within the fund. As more fully described in Note 2, funds held as permanent investments represent amounts that have been legally restricted for the purpose of providing a long-term source of income.

Glossary of Acronyms and Terms

effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial statements of an audited entity are fairly presented in conformity with generally accepted accounting principles.
GAAP	generally accepted accounting principles.
GASB	Governmental Accounting Standards Board.
internal control structure	The management control environment, management information system, accounting system, and control policies and procedures established by management to provide reasonable assurance that goals are met; that resources are safeguarded; that resources are used in compliance with laws and regulations; that valid and reliable performance related information is obtained and reported; and that financial transactions are properly accounted for and reported.
material noncompliance	Violations of laws and regulations that could have a direct and material effect on program results or on financial statement amounts.

material weakness	A serious reportable condition in which the design or operation of one or more of the internal control structure elements (including management controls) does not reduce to a relatively low level the risk that errors or irregularities, of a magnitude that would be material in relation to the program goals or financial statements, would not be prevented or detected.
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 coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in the design or operation of the internal control structure or in management's ability to operate a program in an effective and efficient manner.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>