

Office of the Auditor General
Performance Audit Report

Michigan Veterans' Trust Fund
Michigan Veterans Affairs Agency
Department of Military and Veterans Affairs

May 2019

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

The auditor general may make investigations pertinent to the conduct of audits.

Article IV, Section 53 of the Michigan Constitution



OAG

Office of the Auditor General

Report Summary

Performance Audit

*Michigan Veterans' Trust Fund (MVTF)
Michigan Veterans Affairs Agency (MVAA)
Department of Military and Veterans
Affairs*

Report Number:
511-0410-18

Released:
May 2019

MVTF, established for the benefit of veterans or their spouses or dependents, is administered by the MVTF Board of Trustees and MVAA. As of September 30, 2018, MVTF had a \$61.3 million fund balance. During fiscal year 2018, MVTF financed Emergency Grant Program (EGP) expenditures totaling \$1.5 million. EGP's mission is to assist wartime era veterans who are experiencing a temporary financial emergency or hardship caused by an unforeseen situation. As of May 15, 2018, MVAA had five employees responsible for MVTF program activities.

Audit Objective			Conclusion
Objective #1: To assess the sufficiency of the MVTF Board of Trustees' efforts to administer EGP.			Sufficient
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
None reported.		Not applicable.	

Audit Objective			Conclusion
Objective #2: To assess MVAA's compliance with MVTF legislative reporting requirements.			Complied, with exceptions
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
MVAA underreported EGP administrative expenditures by 7.5% and 10.8% for fiscal years 2016 and 2017, respectively; did not report approved applications by category of assistance; and did not report any denied application information (Finding #1).		X	Agrees

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Auditor General

May 3, 2019

Major General Paul D. Rogers, Director
Department of Military and Veterans Affairs
3411 North Martin Luther King Jr. Boulevard
Lansing, Michigan
and

Mr. Timothy Loney, Deputy Director
Michigan Veterans Affairs Agency
222 North Washington Square
Lansing, Michigan
and

Mr. Barry Wood, Chair
Michigan Veterans' Trust Fund Board of Trustees
222 North Washington Square
Lansing, Michigan

Dear General Rogers, Mr. Loney, and Mr. Wood:

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

We organize our findings and observations by audit objective. Your agency provided the preliminary response to the recommendation at the end of our fieldwork. The *Michigan Compiled Laws* and administrative procedures require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Director upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler
Auditor General

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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

ADMINISTRATION OF THE EMERGENCY GRANT PROGRAM (EGP)

BACKGROUND

The Michigan Veterans' Trust Fund (MVTF) Board of Trustees established the MVTF mission* to grant financial assistance to meet the emergent needs* of qualified veterans and their dependents. EGP provides this assistance to honorably discharged wartime service veterans and their dependents for unforeseen, short-term financial emergent needs. The MVTF Board of Trustees administers EGP with the assistance of the Michigan Veterans Affairs Agency's (MVAA's) MVTF Division, county agents, and county and regional veterans' committees (see Exhibit #1).

During fiscal year 2017, the MVTF Board of Trustees approved and MVAA implemented changes that impacted MVAA's operations and the operations and funding of county veterans' committees. Under the new operating model:

- MVAA or county agents assist the veterans with completing their EGP applications.
- County or regional committees are responsible for:
 - Reviewing the applications.
 - Approving or denying the applications and providing a recommendation to the MVTF Board of Trustees for approved applications exceeding \$1,500.
- MVAA is responsible for issuing all grant payments, eliminating the need for quarterly advancements to counties and the county administrative costs related to processing payments.
- MVAA continues to maintain service contracts with Wayne, Oakland, and Saginaw counties.

Also, beginning in fiscal year 2018, MVAA upgraded its manual EGP grant application management system to an electronic application system.

AUDIT OBJECTIVE

To assess the sufficiency of the MVTF Board of Trustees' efforts to administer EGP.

CONCLUSION

Sufficient.

* See glossary at end of report for definition.

**FACTORS
IMPACTING
CONCLUSION**

- EGP's administrative expenditures decreased \$213,537 (25.2%) from fiscal year 2016 to fiscal year 2018 (see Exhibits #2 and #3).
- The MVTF Board of Trustees, MVAA, and county/regional committees completed the decision process for the 1,037 EGP applications received from October 1, 2017 through July 31, 2018 in 10 days, on average.
- MVAA completed the documentation and payment process for the 556 approved applications received from October 1, 2017 through July 31, 2018 in 22 days, on average.
- MVAA sufficiently documented the 46 applications that we reviewed.

COMPLIANCE WITH LEGISLATIVE REPORTING REQUIREMENTS

BACKGROUND

The Department of Military and Veterans Affairs' (DMVA's) appropriations acts for fiscal years 2016, 2017, and 2018 required that MVAA annually report on MVTF, including:

- Number and amount of emergency grants.
- Methodology of EGP allocations.
- Selection of EGP authorized agents.
- Description of how EGP is administered in each county.
- Detailed breakdown of MVTF expenditures, including:
 - State administrative expenditures.
 - County administrative expenditures.
 - Amounts distributed to each county for administrative costs and emergency grants.
- Number of approved EGP applications by category of assistance.
- Number of denied EGP applications by reason of denial.
- Update on DMVA's efforts to reduce program administrative costs and maintain the MVTF corpus to its original amount of at least \$50 million.

AUDIT OBJECTIVE

To assess MVAA's compliance with MVTF legislative reporting requirements.

CONCLUSION

Complied, with exceptions.

FACTORS IMPACTING CONCLUSION

- MVAA accurately reported on 5 of the 8 legislatively required elements.
- Reportable condition* related to the need to improve MVTF's legislative reports.

* See glossary at end of report for definition.

FINDING #1

Completeness and accuracy of legislative reporting need improvement.

MVAA did not properly report all required information in MVTF's annual legislative reports.

Our review of MVTF's legislative reports and expenditures for fiscal years 2016 and 2017 noted:

- a. MVAA reported \$839,810 and \$823,672 of MVTF administrative expenditures for fiscal years 2016 and 2017, respectively; however, MVAA did not include:
 - (1) Department of Treasury management fees of \$63,177 and \$72,022, 7.5% and 8.7% of total MVTF administrative expenditures, for fiscal years 2016 and 2017, respectively. MVAA was not aware of these fees charged by the Department of Treasury.
 - (2) County administrative expenditures totaling \$17,092, 2.1% of total MVTF administrative expenditures, for fiscal year 2017. MVAA indicated that the omission of these costs was an oversight as a result of the new payment procedures stemming from the change to the new operating model.
- b. MVAA did not report the following required statistical information:
 - (1) The category of assistance for approved EGP applications.
 - (2) The number of or reason for denied EGP applications.

MVAA indicated that the omission of this information was an oversight.

RECOMMENDATION

We recommend that MVAA accurately report all required information in MVTF's annual legislative reports.

AGENCY PRELIMINARY RESPONSE

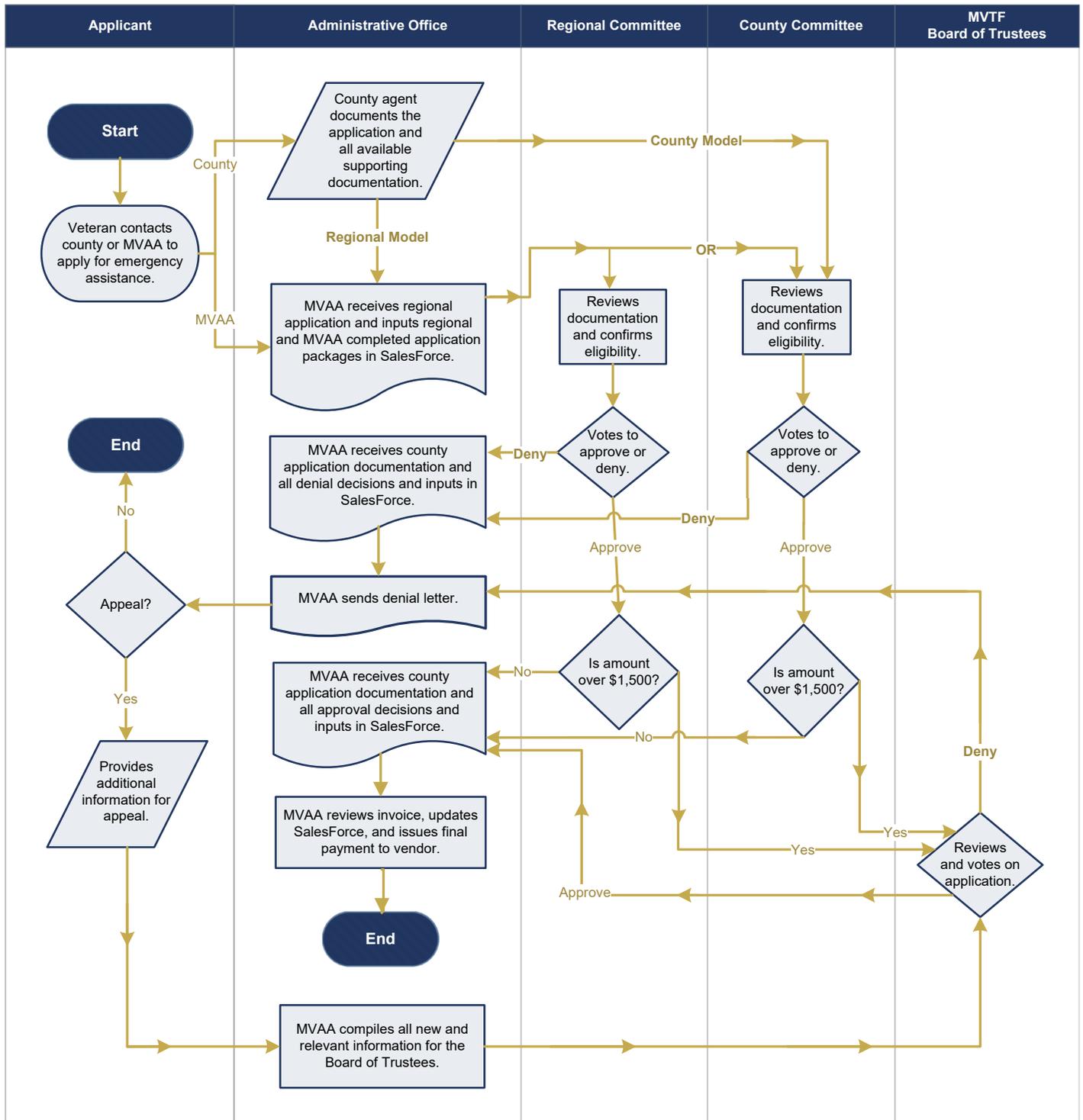
MVAA provided us with the following response:

MVAA and the MVTF Board of Trustees concur with the finding and procedures are now in place to ensure this information will be included in future reporting.

SUPPLEMENTAL INFORMATION

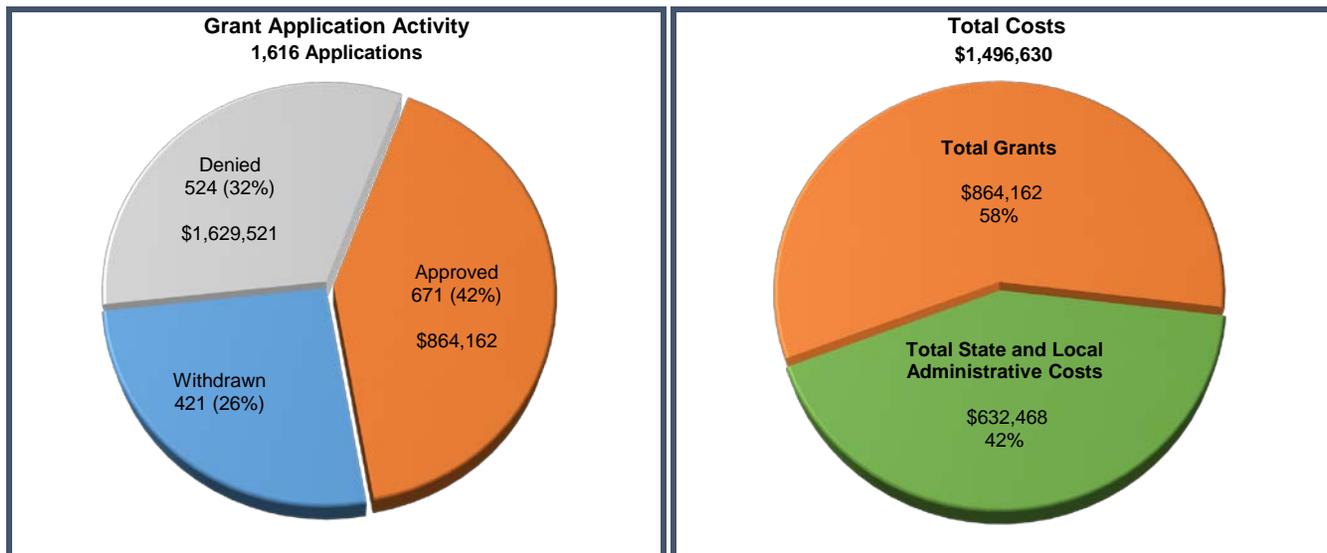
UNAUDITED
Exhibit #1

MICHIGAN VETERANS' TRUST FUND (METF)
Michigan Veterans Affairs Agency
Department of Military and Veterans Affairs
Emergency Grant Program Process
As of Fiscal Year 2018

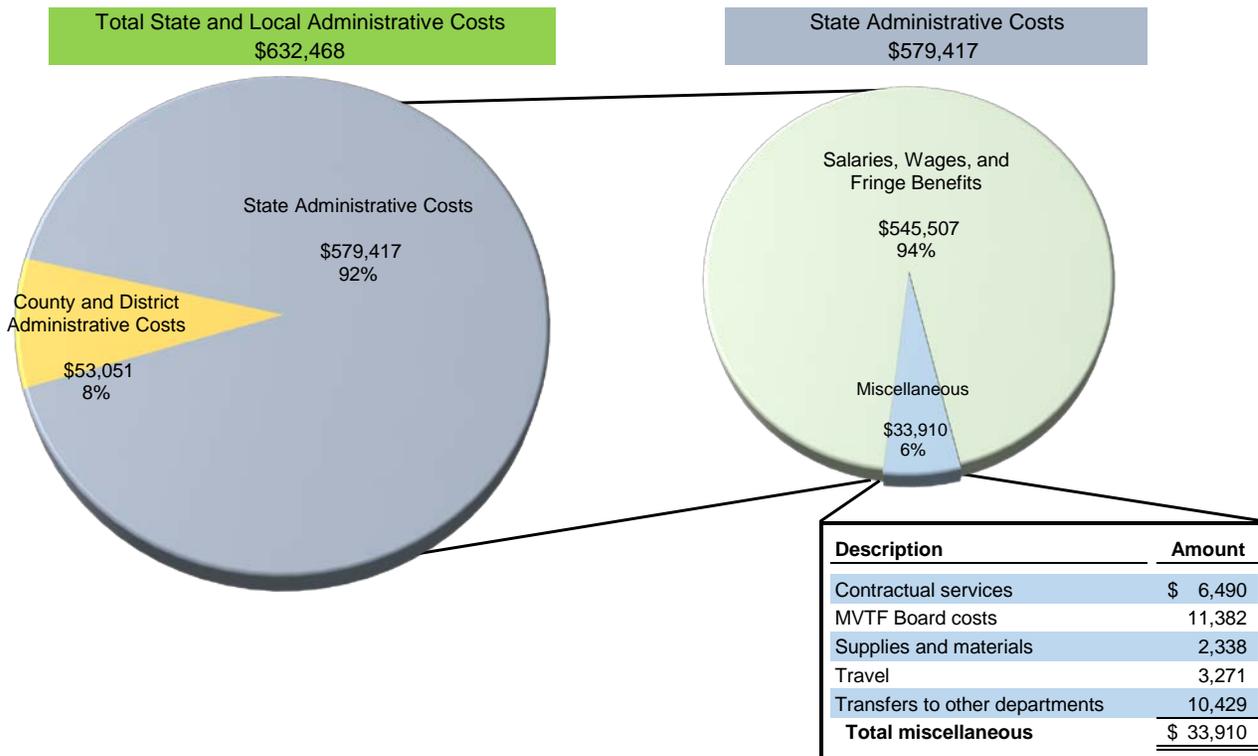


Source: The OAG prepared this exhibit based on information obtained from MVAA.

MICHIGAN VETERANS' TRUST FUND (MVTf)
Michigan Veterans Affairs Agency
Department of Military and Veterans Affairs
Emergency Grant Program Grant Activity and Costs
Fiscal Year 2018



Breakout of Total State and Local Administrative Costs



Source: The OAG prepared this exhibit based on data obtained from MVAA's Salesforce application and the Statewide Integrated Governmental Management Applications (SIGMA) accounting records.

MICHIGAN VETERANS' TRUST FUND (MVTF)
Michigan Veterans Affairs Agency
Department of Military and Veterans Affairs
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Years 2016 Through 2018

	Fiscal Years			Change Fiscal Year 2016 to 2018
	2016	2017	2018*	
Revenues	\$ 4,343,513	\$ 4,664,272	\$ 4,195,663	\$ (147,850)
Expenditures				
Emergency Grant Program:				
Grants	\$ 988,502	\$ 757,311	\$ 864,162	\$ (124,340)
State Administrative Costs:				
Salaries, wages, and fringe benefits	517,931	579,395	545,507	27,576
Miscellaneous:				
Contractual services	17,897	26,983	6,490	(11,407)
Supplies and materials	671		2,338	1,667
Travel	6,377	6,371	3,271	(3,106)
MVTF Board costs	7,118	7,317	11,382	4,264
Civil service fees	8,230	9,323	10,429	2,199
Total Miscellaneous	<u>\$ 40,293</u>	<u>\$ 49,994</u>	<u>\$ 33,910</u>	<u>\$ (6,383)</u>
Total State Administrative Costs	<u>\$ 558,224</u>	<u>\$ 629,389</u>	<u>\$ 579,417</u>	<u>\$ 21,193</u>
County and district administrative costs	217,286	146,274	53,051	(164,235)
Disbursed and unused county grant allotments	70,495	4,688		(70,495)
Total State and Local Administrative Costs	<u>\$ 846,005</u>	<u>\$ 780,351</u>	<u>\$ 632,468</u>	<u>\$ (213,537)</u>
Total Emergency Grant Program Expenditures	<u>\$ 1,834,507</u>	<u>\$ 1,537,662</u>	<u>\$ 1,496,630</u>	<u>\$ (337,877)</u>
Other Expenditures:				
Audit fees	\$ 34,800	\$ 35,500	\$ 25,000	\$ (9,800)
Treasury management fees	63,177	72,022	76,394	13,217
Treasury investment services fees	29,500	29,600	29,300	(200)
Total Other Expenditures	<u>\$ 127,477</u>	<u>\$ 137,122</u>	<u>\$ 130,694</u>	<u>\$ 3,217</u>
Total Expenditures	<u>\$ 1,961,983</u>	<u>\$ 1,674,784</u>	<u>\$ 1,627,324</u>	<u>\$ (334,659)</u>
Excess Revenue Over (Under) Expenditures	\$ 2,381,530	\$ 2,989,488	\$ 2,568,339	\$ 186,809
Fund balance - Beginning of fiscal year	<u>53,358,883</u>	<u>55,740,413</u>	<u>58,729,900</u>	<u>5,371,017</u>
Fund balance - End of fiscal year	<u>\$ 55,740,413</u>	<u>\$ 58,729,900</u>	<u>\$ 61,298,239</u>	<u>\$ 5,557,826</u>

* May not include all year-end closing entries because of report release timing.

Source: The OAG prepared this exhibit based on data obtained from MVAA's Salesforce and the Michigan Administrative Information Network and SIGMA accounting records.

MICHIGAN VETERANS' TRUST FUND
Michigan Veterans Affairs Agency
Department of Military and Veterans Affairs
Historical Summary of MVTF

- 1943 – Public Act 4 of 1943 - Created the Post-War Reserve Fund "for the purpose of liquidating Michigan's obligations, after the termination of the war, to its returning service men, their widows or dependents, or any other post-war obligations of the state of Michigan." Created in the State Treasury in the amount of \$50 million, starting with an immediate transfer of \$20 million from the General Fund and transferring surplus revenues from the General Fund as they became available until the balance in the Fund totaled \$50 million.
- 1946 – Public Act 9 of 1946 - Created and defined the Michigan Veterans' Trust Fund (MVTF), and:
- Transferred the money in the Post-War Reserve Fund to MVTF and required that "Of the funds so transferred, \$50,000,000 shall remain the Michigan veterans' trust fund as a trust."
 - Transferred \$200,000 of MVTF to an emergency loan fund for veterans engaged in a course of instruction.
 - Created the MVTF Board of Trustees and provided that its powers and duties would include determining the purposes for which available money in MVTF would be allocated.
 - Stated that any income in excess of the \$50 million and the \$200,000 shall be available and shall be disbursed upon requisition of the board of trustees "to provide for the needs of Michigan veterans of World War II, their wives and dependents, in the manner provided in this act."
- 1950 – The MVTF Board of Trustees issued "A Summary of Its Origin, Scope and Administration" that stated "...the basic mission of the Michigan Veterans Trust Fund is to grant financial assistance to meet the emergent needs of qualified veterans and their dependents."
- 1960 – Public Act 102 of 1960 - Increased military service requirements for MVTF eligibility from 90 days to 180 days, and Michigan residency requirements from 2 years to 5 years.
- 1965 – Public Act 371 of 1965 - Assigned the MVTF Board of Trustees the administration, including the responsibility of determining eligibility for benefits, of the student tuition program (created in Public Act 245 of 1935 to allow any child of a deceased or disabled veteran to be admitted to any State education or training institution and not be required to pay any tuition or fees).
- 1968 – Public Act 349 of 1968 - Added WWI, Korean conflict, and Vietnam era veterans for MVTF purposes.

This exhibit continued on next page.

- 1978 – Public Act 158 of 1978 - Required the MVTF Board of Trustees to conduct business at a public meeting.
- 1981 – Public Act 160 of 1981 - Provided that requirements of the Open Meetings Act of 1977 shall not apply when deliberating the merits of an "emergent need."
- 1995 – Executive Order No. 1995-15 - Transferred statutory authority, powers, duties, etc. of the MVTF Board of Trustees to DMVA and all administrative and personnel functions of the Board of Trustees to the DMVA director.
- 1996 – Constitution of Michigan 1963 - Amended:
- Article IX, Section 37 established MVTF within the Department of Treasury and transferred all money in the MVTF established by Public Act 9 of 1946.
 - Article IX, Section 38 established the MVTF Board of Trustees, consisting of veterans honorably discharged from the armed services and appointed by the Governor.
 - Article IX, Section 39 required that the MVTF Board of Trustees shall administer MVTF and "shall not authorize the expenditure or transfer of a trust fund asset, interest, or earnings unless the board of trustees determines in its discretion and by a majority vote that the expenditure or transfer is for the benefit of veterans or their spouses or dependents."
- 2005 – Public Act 248 of 2005 - Created the Children of Veterans Tuition Grant Program (CVTG) (and repealed the student tuition program - Public Act 245 of 1935) to be administered by the Michigan Higher Education Assistance Authority, later transferred to the Department of Treasury (Student Scholarships and Grants, Student Financial Services Bureau).
- 2005 – MVTF Board of Trustees voted to discontinue funding CVTG. MVTF provided nearly 50% of CVTG funding for fiscal year 2006, and nothing thereafter.
- 2013 – Executive Order No. 2013-2 - Created MVAA within DMVA to review, investigate, evaluate, and assess all programs within the executive branch related to services and benefits for veterans and to serve as the coordinating office for all executive branch agencies that are responsible for programs related to services for veterans.

Source: The OAG prepared this exhibit based on information obtained from the *Michigan Compiled Laws*, the Michigan Constitution, and MVAA.

DESCRIPTION

MVTF was established within the Department of Treasury for the benefit of veterans or their spouses or dependents. The MVTF Board of Trustees, with the assistance of MVAA, is responsible for administering MVTF program activities. See Exhibit #4 for a historical summary of MVTF.

As of September 30, 2018, MVTF had a fund balance of \$61.3 million and for fiscal year 2018 financed EGP expenditures totaling \$1.5 million, \$864,162 for emergency grants and \$632,468 for State and local administrative costs (see Exhibits #2 and #3). Also, for fiscal year 2018, the MVTF Board of Trustees, MVAA, and county/regional committees processed 1,195 EGP applications (671 approved and 524 denied). In addition, 421 applications were initiated and ultimately withdrawn.

As of May 15, 2018, MVAA's MVTF Division had five employees responsible for MVTF program activities.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To review the records and operations of MVAA related to MVTF and the administration of EGP. 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.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2015 through July 31, 2018.

METHODOLOGY

We conducted a preliminary survey to gain an understanding of MVAA's processes related to MVTF and EGP in order to establish our audit objectives, scope, and methodology. During our preliminary survey, we:

- Interviewed MVAA's management regarding overall program functions and processes.
- Reviewed applicable laws, regulations, boilerplate requirements, and the MVTF Board of Trustees' meeting minutes for fiscal years 2016, 2017, and 2018.
- Reviewed MVAA position descriptions and EGP processes.
- Reviewed MVTF annual legislative reports for fiscal years 2016 and 2017.
- Researched other state's programs similar to EGP to identify eligibility requirements, funding, and how grants are dispersed.
- Tested 6 applications received from October 1, 2015 through May 14, 2018 for proper documentation of eligibility and MVAA or county/regional committee review.

OBJECTIVE #1

To assess the sufficiency of the MVTF Board of Trustees' efforts to administer EGP.

* See glossary at end of report for definition.

To accomplish this objective, we:

- Analyzed overall MVTF expenditures, including EGP grants and State and local administrative costs for fiscal years 2016, 2017, and 2018.
- Tested 40 of the 1,992 applications, denied from October 1, 2015 through June 30, 2018, to ensure that the denials were adequately supported. We randomly selected the applications to eliminate bias and enable us to project the results to the entire population.
- Analyzed 1,037 EGP applications for decision timeliness and 556 approved applications for payment timeliness. We limited our review to the applications received from October 1, 2017 through July 31, 2018 based on the availability of electronic data and the changes in MVAA's processes.
- Reconciled the receipt of unused county allotments, disbursed under the previous EGP operating model, with the State's accounting records.

OBJECTIVE #2

To assess MVAA's compliance with MVTF legislative reporting requirements.

To accomplish this objective, we reviewed:

- MVAA boilerplate reporting requirements for fiscal years 2016, 2017, and 2018.
- MVTF's fiscal year 2016 and 2017 annual reports, source documentation, and the State's accounting records to determine if the reports accurately presented the required elements.

CONCLUSIONS

We base our conclusions on our audit efforts and any resulting material conditions* or reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

AGENCY RESPONSES

Our audit report contains 1 finding and 1 corresponding recommendation. MVAA's preliminary response indicates that it agrees with the recommendation.

* See glossary at end of report for definition.

The agency preliminary response that follows the recommendation in our report was taken from the agency's written comments and oral discussion at the end of our fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require an audited agency to develop a plan to comply with the recommendations and to submit it to the State Budget Director upon completion of an audit. Within 30 days of receipt, the Office of Internal Audit Services, State Budget Office, 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.

PRIOR AUDIT FOLLOW-UP

Following is the status of the findings reported from our October 2011 performance audit of the Emergency Grant Program, Michigan Veterans' Trust Fund, Department of Military and Veterans Affairs (511-0410-11):

Prior Audit Finding Number	Topic Area	Current Status	Current Finding Number
1	Increase administrative efficiencies and reduce EGP costs.	Complied	Not applicable
2	Reporting efforts to reduce EGP administrative costs.	Complied	Not applicable

SUPPLEMENTAL INFORMATION

Our audit report includes supplemental information presented as Exhibits #1 through #4. Our audit was not directed toward expressing a conclusion on this information.

GLOSSARY OF ABBREVIATIONS AND TERMS

CVTG	Children of Veterans Tuition Grant Program.
DMVA	Department of Military and Veterans Affairs.
EGP	Emergency Grant Program.
emergent need	Any unforeseen emergency in the life of honorably discharged veterans and/or their legal dependents which necessitates immediate temporary assistance.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and 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. Our assessment of materiality is in relation to the respective audit objective.
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.
MVTF	Michigan Veterans' Trust Fund.
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.
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.

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