



Department of Veterans Affairs

Programs and Services Division and
Centralized Administrative Functions

Internal Controls and Compliance Audit

July 2013 through February 2016

January 5, 2017
REPORT 17-01

Financial Audit Division

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Office of the Legislative Auditor Financial Audit Division

The Financial Audit Division at the Office of the Legislative Auditor (OLA) performs three types of audits of entities within the state's executive and judicial branches:

- **Financial Statement** audits determine whether an entity has prepared its Comprehensive Annual Financial Report in accordance with governmental accounting principles. The division provides audit opinions on the financial reports for the State of Minnesota, the state's three large public pension plans, and the Minnesota Sports Facilities Authority.
- **Federal Grant Compliance** audits determine whether the state has complied with federal requirements for many of its largest federal programs. Often called the *Single Audit*, the federal government requires these audits as a condition of receiving federal grants.
- **Internal Controls and Legal Compliance** audits determine whether an entity has internal controls to effectively manage the risks of its financial operations and whether it has complied with legal compliance requirements chosen for testing.

The Financial Audit Division has a staff of about 35 auditors, many of whom are licensed CPAs and hold other certifications. The division conducts its audits in accordance with *Government Auditing Standards* established by the Comptroller General of the United States.

One requirement of the audit standards is a periodic review of the division's system of quality control by audit peers from across the country. The division's most recent peer review report is available at: www.auditor.leg.state.mn.us/fad/pdf/fadpeer.pdf

OLA also has a **Program Evaluation Division** that evaluates topics periodically selected by members of the Legislative Audit Commission.

In addition, OLA may conduct a **Special Review** in response to allegations and other concerns brought to the attention of the Legislative Auditor. The Legislative Auditor conducts a preliminary assessment in response to each request for a special review to determine what additional action, if any, OLA should take.



OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

January 5, 2017

Representative Sondra Erickson, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Larry Shellito, Commissioner
Department of Veterans Affairs

This report presents the results of our internal controls and compliance audit of the Department of Veterans Affairs for the period July 1, 2013, through February 29, 2016. The objectives of this audit were to determine if the department had adequate internal controls for the financial operations of its Programs and Services Division and centralized administrative functions and complied with selected finance-related legal requirements.

We discussed the results of the audit with the Department of Veteran Affairs' staff on December 16, 2016. This audit was conducted by Scott Tjomsland, CPA, CISA (Audit Director) Tyler Billig, CPA (Auditor-in-Charge), and assisted by auditors Erick Olsen and Todd Pisarski.

We received the full cooperation of the Department of Veterans Affairs' staff while performing this audit.

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor



Table of Contents

	<u>Page</u>
Report Summary	1
Overview	3
Objective, Scope, and Methodology	5
Conclusion	6
Findings and Recommendations	7
1. The Department of Veterans Affairs provided certain benefits to veterans that were not specifically authorized in statute	7
2. The Department of Veterans Affairs did not administer grants in compliance with certain state policies	9
3. The Department of Veterans Affairs did not collect overpayments made to two employees and did not identify overpayments made to three other employees	11
4. The Department of Veterans Affairs did not have effective internal controls to ensure it collected all federal reimbursements for the State Veterans Cemetery in Preston	14
Agency Response	15



Report Summary

The Minnesota Department of Veterans Affairs is a state agency dedicated to serving veterans and their families by assisting them in securing state and federal benefits and by providing programs and services relating to higher education, benefits, burial, claims, outreach, and veterans preference. The department also operates five veterans homes throughout the state.

We examined the department's internal controls over a portion of its financial operations and its compliance with certain finance-related legal requirements during the period from July 2013 through February 2016. This selected scope review included the financial activities of the department's Programs and Services Division and the department's expenditures on centralized administrative functions. This review did not include any of the financial activities of the department's Veterans Health Care Division, which operates the veterans homes.

Conclusion

The Department of Veterans Affairs had generally adequate internal controls over the financial operations of its Programs and Services Division and centralized administrative functions and generally complied with the significant finance-related legal requirements we tested. However, the department had some weaknesses related to veterans benefits programs, grants, payroll, and federal reimbursements.

Findings

- The Department of Veterans Affairs provided certain benefits to veterans that were not specifically authorized in statute. (Finding 1, page 7)
 - The Department of Veterans Affairs did not administer grants in compliance with certain state policies. (Finding 2, page 9)
 - The Department of Veterans Affairs did not collect overpayments made to two employees and did not identify overpayments made to three other employees. (Finding 3, page 11)
 - The Department of Veterans Affairs did not have effective internal controls to ensure it collected all federal reimbursements for the State Veterans Cemetery in Preston. (Finding 4, page 14)
-



Department of Veterans Affairs

Overview

The Minnesota Department of Veterans Affairs is a state agency dedicated to serving Minnesota's nearly 370,000 veterans and their families by assisting them in securing state and federal benefits. In January 2011, Governor Mark Dayton appointed Major General Larry Shellito (retired) as the commissioner of the department. He leads a staff of 1,345. The department operates under *Minnesota Statutes* 196, 197, and 198. In addition, *Minnesota Administrative Rules* 9050 and 9055 provide more specific legal requirements governing the department's operations.

The department has two divisions, each managed by a deputy commissioner:

- The **Programs and Services Division**, through its veterans services, veterans programs, and education and employment sections, helps veterans obtain financial assistance and counseling services from various programs administered by the department or other entities, including the federal government and local governments.
- The **Health Care Division** operates five veterans homes located in the cities of Minneapolis, Hastings, Fergus Falls, Luverne, and Silver Bay. The homes operate 24 hours a day, every day, and provide services such as skilled nursing care, special care units for dementia and Alzheimer's, domiciliary care, rehabilitation services, recreational therapy, and work therapy. The division also provides centralized pharmacy services and facilities management services to all five homes.

Also, under the direction of its chief of staff, the department centrally administers its financial services, human resources, legal affairs, communications, legislative relations, internal audit, and information technology functions.

The department partners with veterans service organizations,¹ county veterans service offices, and a number of public and private service providers. The county veterans service offices, located in each of Minnesota's counties, are the primary source of contact for all veteran benefits and resources.

The department received General Fund appropriations of \$63,508,000, \$62,753,000, and \$69,106,000 in fiscal years 2014, 2015, and 2016, respectively. The Legislature earmarked about 25 percent of these appropriations for veterans programs and services and about 75 percent for the operation of the veterans homes. For its centralized administrative functions, the department allocated

¹ Veterans service organizations include Disabled American Veterans, Military Order of the Purple Heart, the American Legion, Veterans of Foreign Wars, Vietnam Veterans of America, and Paralyzed Veterans of America.

money from its two earmarked appropriations. The department also received General Fund appropriations specifically for the Minnesota GI Bill Program.²

In addition, the department received a share of the fees collected by the Department of Public Safety for the state's "Support Our Troops" license plates to use for grants or benefits.³ Finally, the department collected several types of receipts, including federal grants, fees from veterans home residents, fees for state cemetery burials, and gifts and donations.

Table 1 recaps the appropriations and other receipts for the department's Programs and Services Division and its centralized administrative functions included in the scope of this audit.

Table 1
Department of Veterans Affairs
Selected Appropriations and Receipts
Fiscal Years 2014 through 2016

	Fiscal Years		
	2014	2015	2016 ¹
General Fund Appropriations			
Programs and Services	\$13,923,966	\$13,528,418	\$13,905,322
Allocation for Centralized Functions	4,290,485	4,873,813	3,915,922
MN GI Bill Program ²	<u>1,596,206</u>	<u>1,785,884</u>	<u>2,470,000</u>
Total General Fund Appropriations	\$19,810,657	\$20,188,115	\$20,291,244
Support Our Troops Appropriations	493,353	494,720	501,559
Federal Grants for State Cemetery Burials	296,391	196,462	207,298
Fees from State Cemetery Burials	<u>94,200</u>	<u>85,400</u>	<u>128,210</u>
Total	<u>\$20,694,601</u>	<u>\$20,964,697</u>	<u>\$21,183,311</u>

¹ This table includes fiscal year 2016 financial activity through June 30, 2016; however, the scope of our audit included fiscal year 2016 activity through February 2016.

² The department transferred a portion of the appropriation to the Office of Higher Education to administer a portion of the Minnesota GI Bill Program.

Source: State of Minnesota's accounting system.

Our audit focused primarily on the expenditures of the Programs and Services Division and the department's centralized administrative functions. Table 2 summarizes the expenditures we reviewed.

² *Minnesota Statutes* 2016, 197.791, established the Minnesota GI Bill Program "...to provide postsecondary educational assistance to eligible Minnesota veterans and to the children and spouses of deceased and severely disabled Minnesota veterans."

³ *Minnesota Statutes* 2016, 168.1298, directed the Department of Public Safety to establish the "Support Our Troops" license plate program and to deposit the fees collected into the "Support Our Troops" account in the state's Special Revenue Fund. *Minnesota Statutes* 2016, 190.19, subd. 1, appropriates money in the account in equal shares to the Departments of Military Affairs and Veterans Affairs.

Table 2
Department of Veterans Affairs
Expenditures of the
Programs and Services Division
and Centralized Administrative Functions
Fiscal Years 2014 through 2016

	Fiscal Years		
	2014	2015	2016 ¹
Programs and Services Expenditures:			
Payroll	\$ 4,373,791	\$ 4,558,109	\$ 5,278,691
Veterans Benefits	4,311,210	4,662,175	4,657,184
Grants	2,341,852	2,396,355	3,231,226
Purchased Services	1,877,131	1,265,620	998,051
Supplies, Equipment, and Assets	165,788	627,095	1,258,823
Other Expenditures ²	<u>96,462</u>	<u>186,473</u>	<u>634,640</u>
Total Program and Services Expenditures	<u>\$13,166,234</u>	<u>\$13,695,827</u>	<u>\$16,058,615</u>
Centralized Administrative Functions Expenditures:			
Payroll	\$ 3,146,833	\$ 3,319,651	\$ 3,426,869
Purchased Services	1,665,309	\$534,119	\$689,039
Supplies, Equipment, and Assets	185,938	534,723	414,698
Other Expenditures ³	<u>339,300</u>	<u>144,216</u>	<u>172,778</u>
Total Centralized Administrative Functions Expenditures	<u>\$ 5,337,380</u>	<u>\$ 4,532,709</u>	<u>\$ 4,703,384</u>

¹ This table includes fiscal year 2016 financial activity through June 30, 2016; however, the scope of our audit included fiscal year 2016 activity through February 2016.

² Other Expenditures include repairs/maintenance, indirect costs, other expenses, and interest/financing costs.

³ Other Expenditures include claims, repairs/maintenance, indirect costs, other expenses, and grants, aids, and subsidies.

Source: State of Minnesota's Accounting System

Objective, Scope, and Methodology

The objective of our selected scope audit of the Department of Veterans Affairs was to answer the following questions for the period from July 1, 2013, through February 29, 2016:

- Did the Department of Veterans Affairs have adequate internal controls over the financial operations of its Programs and Services Division and centralized administrative functions?
- Did the Department of Veterans Affairs comply with significant finance-related legal requirements we tested?

The scope of the audit included the Programs and Services Division's expenditures and the department's centralized administrative functions. Additionally, related to state cemetery burials, we reviewed federal reimbursements and fees.

To meet the audit objectives, we gained an understanding of the department's financial policies and procedures. We considered the risk of errors in the accounting records and potential noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined samples of financial transactions and reviewed supporting documentation to test whether the department's controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions.

We conducted the audit in accordance with generally accepted government auditing standards.⁴ 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 used various criteria to evaluate internal controls and compliance. We used as our criteria to evaluate department controls the guidance contained in the *Standards for Internal Control in the Federal Government*, published by the U.S. Government Accountability Office.⁵ We used state and federal laws, regulations, and contracts, as well as policies and procedures established by the departments of Management and Budget, Administration, and Veterans Affairs as evaluation criteria over compliance.

Conclusion

The Department of Veterans Affairs had generally adequate internal controls over the financial operations of its Programs and Services Division and centralized administrative functions and generally complied with the significant finance-related legal requirements we tested. However, the department had some weaknesses related to veterans benefits programs, grants, payroll, and federal reimbursements.

The following *Findings and Recommendations* section provides further explanation about the exceptions noted above.

⁴ U.S. Government Accountability Office, *Government Auditing Standards*, December 2011.

⁵ The state has adopted these standards as its internal control framework for the executive branch. See the Department of Management and Budget Statewide Operating Policy, 0102-01, *Internal Control System*.

Findings and Recommendations

The Department of Veterans Affairs provided certain benefits to veterans that were not specifically authorized in statute.

Finding 1

The department used money from its General Fund appropriations to provide benefits to veterans under two programs not specifically authorized in statute. In our opinion, requirements and limits should be established in law to provide the Legislature and other interested parties with the opportunity to have a role in determining appropriate guidelines for those benefits. Those programs included:

- Special needs benefits, defined by the department as once per lifetime financial assistance paid directly to vendors on behalf of a veteran during a time of hardship. During fiscal years 2014, 2015, and 2016, the department paid over \$5 million in special needs benefits.⁶
- Disaster benefits, defined by the department as financial assistance with repairs or expenses related to natural disasters in areas declared in a state of emergency by the Governor of Minnesota. During fiscal years 2014, 2015, and 2016, the department paid \$203,000 in disaster benefits.⁷

The department told us it believed it had statutory authority for the programs under *Minnesota Statutes* 2016, 196.05, subd. 1, which states, “The commissioner shall ... (5) administer the state soldiers’ assistance fund and veterans’ relief fund and other funds appropriated for the payment of bonuses or other benefits to veterans or for the rehabilitation of veterans...”

While that provision provides general authority to the department to administer benefits to veterans, *Minnesota Statutes* 2016, 197, includes additional provisions that specifically establish guidelines for the other benefit programs administered by the department, including various types of benefits from the State Soldiers’ Assistance Fund and educational benefits.⁸ No such additional statutory provisions exist for the special needs and disaster benefits.

The department also adopted *Minnesota Administrative Rules* to establish more specific guidelines for benefits from the State Soldiers’ Assistance Fund and

⁶ These totals include benefits paid through February 2016.

⁷ These totals include benefits paid through February 2016.

⁸ Although named in statute, Minnesota does not have a separate State Soldiers’ Assistance Fund. Instead, the department allocates portions of its General Fund appropriations for those benefits. Benefits authorized by the State Soldiers’ Assistance Fund provisions include financial assistance for shelter, room and board, rent, utilities, health insurance, dental costs, optical costs, emergency medical treatment costs, and clothing.

education benefits than provided for in statute,⁹ as required by *Minnesota Statutes* 2016, 196.04, subd. 1, which states, “The commissioner shall adopt reasonable and proper rules to...provide for the nature and extent of the proofs and evidence and the method of taking and furnishing the same, in order to establish the right to benefits provided for by the law.”

The statutes and rules establish eligibility requirements and limits on benefit amounts in law. Conversely, the eligibility requirements and limits on benefit amounts for special needs and disaster benefits are not established in law, but solely in department policy. Without requirements and benefits established in law, the department can provide benefits prohibited by other programs. For example, in reviewing samples of special needs and disaster benefits, we observed some instances where the department provided benefits similar to those provided through other department benefit programs without following the guidelines established for those benefits, including the following:

- Three of the special needs benefits we reviewed included payments for past due utility bills. Payments for utility bills are also available as a benefit under the State Soldiers Assistance Fund provisions, but the rules for that fund prohibit payments for past due amounts.¹⁰
- One of the special needs benefits we reviewed paid for the cost of emergency medical treatment. Payments for emergency medical treatment are also available as a benefit under the State Soldiers Assistance Fund provisions, but only to veterans with incomes under a certain amount.¹¹ The income of the veteran who received the special needs benefit exceeded that amount.

Recommendation

- *The Department of Veterans Affairs should propose legislation to establish guidelines in law for special needs and disaster program benefits. The Department of Veterans Affairs should also adopt Minnesota Administrative Rules for those programs.*

⁹ *Minnesota Administrative Rules* 2015, chapter 9055. An administrative rule is a general statement adopted by an agency to make the law it enforces or administers more specific or to govern the agency’s organization or procedure. Administrative rules have the force and effect of law.

¹⁰ *Minnesota Administrative Rules* 2015, 9055.0060, subp. 4.

¹¹ *Minnesota Administrative Rules* 2015, 9055.0090.

The Department of Veterans Affairs did not administer grants in compliance with certain state policies.

Finding 2

During fiscal years 2014 through 2016, the department did not comply with some of the state policies established by the Department of Administration's Office of Grants Management. During this period, the department disbursed \$3,591,616 for 22 grant agreements. The department had the following weaknesses in its administration of these grants.

- Department staff involved in the grant-making process did not complete and sign conflict of interest disclosure forms, as required by state policy.¹² The policy states, "All state employees and grant reviewers involved in the review of the grant applications must complete and sign a conflict of interest disclosure form for each grant review in which they participate." The policy further states "This policy applies to any state employees, appointees and grant reviewers who may be involved with any part of the grant-making process. This includes but is not limited to: developing requests for proposals, evaluating grant proposals, awarding a grant, drafting and entering into a grant agreement, evaluating grantee performance under a grant agreement, as well as authorizing payment under a grant agreement." Unidentified conflicts of interest could result in employees inappropriately influencing decisions and actions regarding grants.
- The department did not always cite the appropriate statutory authority in its grant agreements, as required by state policy.¹³ Ten of eighteen grant agreements that included funds granted from the Minnesota "Support Our Troops" account did not cite the state law authorizing the use of those funds for grants.¹⁴ The policy states that grant agreements must "Cite the agency's statutory authority to make grants and the authority for that particular grant program." Citing the appropriate statutory authority in grant agreements is necessary to ensure grantees are aware of the applicable legal provisions for grants.
- The department reimbursed four of the five fiscal year 2016 grantees to which it did not advance funds without the approval of the authorized representative named in the grant agreements, as required by state policy.¹⁵ The policy states, "The State's authorized representative or their successor, named in the grant agreement, shall review each request for reimbursement...before approving payment." A different department employee reviewed and approved reimbursement requests for payment

¹² Department of Administration's Office of Grants Management Policy 08-01.

¹³ Department of Administration's Office of Grants Management Policy 08-04.

¹⁴ *Minnesota Statutes* 2015, 190.19 established the Minnesota "Support Our Troops" account.

¹⁵ Department of Administration's Office of Grants Management Policy 08-08.

without delegation or an additional approval from the authorized representative.

- The department did not provide justification for an advance payment of \$35,100 to one of the three fiscal year 2016 grantees to which it advanced funds, as required by state policy.¹⁶ The policy prefers that grant payments be made on a reimbursement basis, but it does allow for advance payments in certain situations. For advance payments, the policy states, "...agencies must prepare a written justification or include a justification in the grant agreement that details the specific need to utilize advance payments." If not included in the grant agreement, the policy requires the justification to be maintained in the grant file. Advancing grant money increases the financial risk until the department reconciles the grant award to the grantee's actual expenditures at a later time.

We also noted instances of noncompliance with state grant policies for grants issued prior to fiscal year 2016. The department subsequently improved its procedures after hiring a grants specialist in January 2015 and complied with those policies for grants issued in fiscal year 2016. The instances of noncompliance included the following:

- The department did not obtain workplans and budgets from grantees for 11 of the 14 grants issued prior to fiscal year 2016, as required by state policy.¹⁷ The policy states, "State agencies must require grantee organizations...to submit a grant workplan and budget." Workplans and budgets are necessary to ensure grantees use grant funds appropriately.
- The department did not conduct any monitoring visits or financial reconciliations of grantee expenditures for any of the eight grants issued prior to fiscal year 2016 that exceeded \$50,000, as required by state policy.¹⁸ The policy requires agencies to "...conduct at least one monitoring visit per grant period on all state grants of over \$50,000 and to conduct at least annual monitoring visits on grants of over \$250,000.... State agencies must also conduct a financial reconciliation of grantees' expenditures at least once during the grant period on grants of over \$50,000." In addition, the department did not conduct financial reconciliations for six other grants with amounts between \$45,000 and \$50,000. Although not required by state policy, the grant agreements included clauses that required the department to conduct financial

¹⁶ Department of Administration's Office of Grants Management Policy 08-08.

¹⁷ Department of Administration's Office of Grants Management Policy 08-11.

¹⁸ Department of Administration's Office of Grants Management Policy 08-10. The policy defines financial reconciliation, stating that it "...involves reconciling a grantee's request for payment for a given period with supporting documentation for that request, such as purchase orders, receipts and payroll records."

reconciliations for those grants. Monitoring visits and financial reconciliations are necessary to ensure grantees use grant funds appropriately.

- The department did not document an evaluation of grantee performance for any of the 14 grants issued prior to fiscal year 2016, as required by state policy.¹⁹ The policy states, “State agencies must consider a grant applicant’s performance on prior grants from that agency before making a new grant award of over \$5,000.” Each of those grantees received a grant from the department in the subsequent fiscal year. Evaluating grantee performance is important to ensure new grants are not awarded to poorly performing grantees.
- The department reimbursed two grantees for out of state travel expenses, totaling \$30,729, without its prior approval. Grant agreements included a provision stating that travel and subsistence expenses incurred outside of Minnesota is not approved unless the grantee has received the state’s prior written approval for out-of-state travel.

Recommendation

- *The Department of Veterans Affairs should continue to strengthen its procedures to ensure it administers grants in compliance with state policies.*

The Department of Veterans Affairs did not collect overpayments made to two employees and did not identify overpayments made to three other employees.

Finding 3

Uncollected Overpayments. The department identified but did not collect overpayments totaling about \$2,878 from two employees, as follows:

- The department identified an error it made processing an authorized increase to the commissioner’s salary that resulted in a \$707 overpayment, but did not collect the overpayment until we asked about it during our audit. Department of Management and Budget Policy PAY0033 requires agencies to collect all payroll overpayments. The department prepared and the commissioner signed an agreement for his wages to be reduced in November and December 2013 to repay the overpayment; however, department staff told us that a business office employee misunderstood the procedures to process the reductions in the payroll system and did not take the necessary steps to do so. The department also had not developed internal controls to validate the collection of overpayments. After our

¹⁹ Department of Administration’s Office of Grants Management Policy 08-13.

discussions with department staff, the department collected the overpayment in June and July 2016.

- The department identified errors it made processing an employee's pay rate increases over a period of about four years that resulted in a \$2,171 overpayment but did not collect the overpayment. When the employee refused to voluntarily consent to the collection of the overpayment, the department initially complied with state policy by sending the employee a notice of its intent to offset the overpayment against future wages. However, the department did not follow state policy upon receiving a subsequent request from the employee for a contested case hearing. Department of Management and Budget Policy PAY0033 states:

Immediately upon receipt of the request for a contested case hearing, the agency must consult with the Employment Law Division of the Attorney General's Office and the Minnesota Management & Budget, Labor Relations Bureau. The options to schedule a hearing through the Office of Administrative Hearings (OAH), file a claim in conciliation court or withdraw from the process will be discussed. It is critical that this notification happens immediately. Otherwise, the state could forfeit its ability to collect.

The department received the employee's request for a contested case hearing in December 2014, but did not contact the Attorney General's Office nor the Department of Management and Budget, and had not taken any further action by the time of our audit. We observed documentation that the human resources director provided a copy of the state policy to the commissioner in February 2015, but the department had no documentation of any directive from the commissioner about a course of action.

Unidentified Overpayments. In the samples we tested, the department overpaid three employees by a total of about \$1,242, as follows:

- The department overpaid a former deputy commissioner \$983 for vacation hours to which the employee was not entitled. After the employee worked each day over Labor Day weekend in 2013, the department inappropriately compensated the employee for that time by adding 24 hours to his vacation balance. Chapter 3 of the Managerial Plan states, "A manager who works on a regularly scheduled holiday shall in addition to their regular rate of pay be paid for the holiday hours in cash or vacation
-

leave....”²⁰ The plan allowed 8 additional vacation hours for work on the holiday, but not 16 additional vacation hours for work on that Saturday and Sunday.

- The department allowed one former employee to use two floating holidays in the same fiscal year, resulting in an overpayment of \$173. The employment contract with the Minnesota Association of Professional Employees states, “All eligible employees shall receive one (1) floating holiday each fiscal year of the Agreement.”²¹ The department did not have adequate internal controls to ensure it limited employees to one floating holiday in a fiscal year, although we validated that no other employee used more than one floating holiday in a fiscal year during the scope of the audit.
- The department did not verify the accuracy of a pay rate adjustment payment, resulting in an overpayment of \$86. Department of Management and Budget Operating Policy and Procedure PAY0025 instructs agencies to use the payroll system to calculate pay rate adjustment payments and states:

Verify the accuracy of each amount calculated by [the payroll system]. When verifying amounts, consider all previous... retroactive pay rate adjustment transactions that were processed during the same time period covered by the retroactive payment. If the amounts calculated by [the payroll system] need adjustment, enter the correct amounts.

The payroll system calculated a pay rate adjustment payment of \$880, but it did not take into account another pay rate adjustment payment that should have reduced the amount owed to the employee to \$794. The department did not consider the previous pay rate adjustment and adjust the payment amount accordingly.

Recommendations

- *The Department of Veterans Affairs should contact the Attorney General’s Office and the Department of Management and Budget to discuss options for the uncollected overpayment of \$2,171.*

²⁰ The Managerial Plan establishes the compensation, terms, and conditions of employment for all employees in positions identified by the commissioner of Minnesota Management and Budget as managerial. The plan also states that managers “...are exempt from the provisions of the Federal Fair Labor Standards Act and are normally not eligible for overtime pay or compensatory time off with pay.”

²¹ Minnesota Association of Professional Employees bargaining agreement for July 1, 2015, through June 30, 2017, art. 11, sec. 2.

- *The Department of Veterans Affairs should collect the \$1,242 in overpayments from the former and current employees.*
- *The Department of Veterans Affairs should strengthen its procedures to ensure it accurately compensates employees and properly collects any overpayments.*

Finding 4

The Department of Veterans Affairs did not have effective internal controls to ensure it collected all federal reimbursements for the State Veterans Cemetery in Preston.

The department did not have procedures to validate it collected all the burial allowances from the federal Veterans Benefits Administration it was eligible for. As of July 2016, the department was unaware that it had not collected burial allowances for veterans buried at the State Veterans Cemetery in Preston, Minnesota in December 2015 and February 2016, totaling \$6,219 and \$2,939, respectively.

Minnesota Statutes 2015, 197.236, subd. 11, states, “The commissioner of veterans affairs must apply to the Veterans Benefits Administration for a plot or interment allowance payable to the state for... the burial of eligible veterans in cemeteries owned and operated by the state...” The amount of the allowance per burial depends on the veteran’s date of death.²² After our discussions with department staff, the department collected the burial allowances for those two months in August 2016.

Recommendation

- *The Department of Veterans Affairs should develop procedures to ensure it collects all the burial allowances its eligible for from the federal Veterans Benefits Administration.*

²² 38 U.S. Code, sec. 2303. The allowance increased from \$300 to \$700 effective October 1, 2011, with annual increases thereafter based on annual increases to the Consumer Price Index. For the veterans deaths in the current federal fiscal year (October 1, 2015 and September 30, 2016), the federal Veterans Benefits Administration reimbursed the state \$747.



STATE OF MINNESOTA DEPARTMENT OF VETERANS AFFAIRS

OFFICE OF THE COMMISSIONER, LARRY SHELLITO



20 West 12th Street • St. Paul, MN 55155 • (651) 296-2562
Fax (651) 296-3954 • MinnesotaVeteran.org • 1-888-LinkVet

December 22, 2016

Mr. James Nobles, Legislative Auditor
State of Minnesota
Office of the Legislative Auditor
Room 140, Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles,

We appreciate the opportunity to respond to the findings and recommendations included in the Minnesota Department of Veterans Affairs internal controls and compliance audit for the period of July 1, 2013 - February 29, 2016. We view the audits performed by your Office as valuable opportunities for an independent assessment of our financial processes and a means to evaluate our progress against Department goals and objectives. Additionally, we appreciate the staff resources and professional analysis you dedicated to this review.

MDVA is committed to continuous improvement in all areas, and the four findings identified in your report are no exception. Agency response to each of the findings in the report are provided on the following pages. As illustrated in your report, we have made significant progress over the past several years, and there is always opportunity for continued exploration of procedures and processes consistent with best practices.

Again, we found the information provided helpful and important as we work to fulfill our mission of "serving Minnesota Veterans and their families." Please extend our appreciation to the audit managers and staff responsible.

Sincerely,

/s/ Larry Shellito

Larry Shellito, Commissioner
Minnesota Department of Veterans Affairs

An Equal Opportunity Employer

This document is available in alternative formats to individuals with disabilities by calling the Minnesota Relay Service at 1-800-627-3529 (TTY)

Recommendation #1

The Department of Veterans Affairs should propose legislation to establish guidelines in law for special needs and disaster program benefits. The Department of Veterans Affairs should also adopt Minnesota Administrative Rules for those programs.

The MDVA will seek consultation with interested parties as to the development of legislation for special needs and disaster program benefits. As currently authorized by statute, the MDVA began the process of amending the Minnesota Administrative Rule Ch. 9055 in September 2016. The MDVA is considering rule amendments that add new or modify existing definitions, obtain compliance with statutory changes, and make technical corrections. These changes will permit the agency to: update and clarify definitions, clarify State Soldiers Assistance Program requirements and regulations, update other veterans' funding benefits requirements and regulations, update educational assistance requirements, update claims division requirements, and other considerations as time allows. The MDVA anticipates completion of the Rule 9055 amendment in the spring of 2018.

Responsible Staff: Brad Lindsay, Deputy Commissioner, Programs and Services
Anticipated Completion Date: Spring 2018

Recommendation #2

The Department of Veterans Affairs should continue to strengthen its procedures to ensure it administers grants in compliance with state policies.

The MDVA will continue to strengthen and improve its procedures consistent with best practices. The MDVA will seek guidance and clarification of state policies from the Department of Administration, Office of Grants Management (OGM) in the administration of our state grants. As stated in the report, MDVA has substantially improved procedures due to the work of the recently hired grants specialist. This report finding is confirmation that the department is moving in the right direction with the grants program.

Responsible Staff: Mike McElhiney, Chief of Staff, Central Administration
Anticipated Completion Date: Ongoing

Recommendation #3:

- *The Department of Veterans Affairs should contact the Attorney General's Office and the Department of Management and Budget to discuss options for the uncollected overpayment of \$2,171.*
- *The Department of Veterans Affairs should collect the \$1,242 in overpayments from the former and current employees.*
- *The Department of Veterans Affairs should strengthen its procedures to ensure it accurately compensates employees and properly collects any overpayments.*

The MDVA will seek consultation with appropriate entities as to the options afforded the agency in the identified instances of overpayment. The MDVA has developed and implemented internal controls to ensure accurate compensation is paid to all employees. As stated in the report, the agency has already begun the process of collecting overpayments. The MDVA will continue to seek out best practices should an issue of overpayments occur again.

Responsible Staff: Mike McElhiney, Chief of Staff, Central Administration
Anticipated Completion Date: Ongoing

An Equal Opportunity Employer

This document is available in alternative formats to individuals with disabilities by calling the Minnesota Relay Service at 1-800-627-3529 (TTY)

Recommendation #4

The Department of Veterans Affairs should develop procedures to ensure it collects all the burial allowances its eligible for from the federal Veterans Benefits Administration.

The MDVA has developed and implemented procedures to ensure proper tracking of all eligible burial allowances from the federal Veterans Benefits Administration. As stated in the report, burial allowances have been collected from the federal Veteran Benefits Administration for the burials at the Preston State Veterans Cemetery.

Responsible Staff: Brad Lindsay, Deputy Commissioner, Programs and Services

Anticipated Completion Date: Completed

For more information about OLA and to access its reports, go to: www.auditor.leg.state.mn.us.

To offer comments about our work or suggest an audit, evaluation, or special review, call 651-296-4708 or email legislative.auditor@state.mn.us.

To obtain printed copies of our reports or to obtain reports in electronic ASCII text, Braille, large print, or audio, call 651-296-4708. People with hearing or speech disabilities may call through Minnesota Relay by dialing 7-1-1 or 1-800-627-3529.



Printed on Recycled Paper



OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL OFFICE BUILDING – SUITE 140
658 CEDAR STREET – SAINT PAUL, MN 55155