

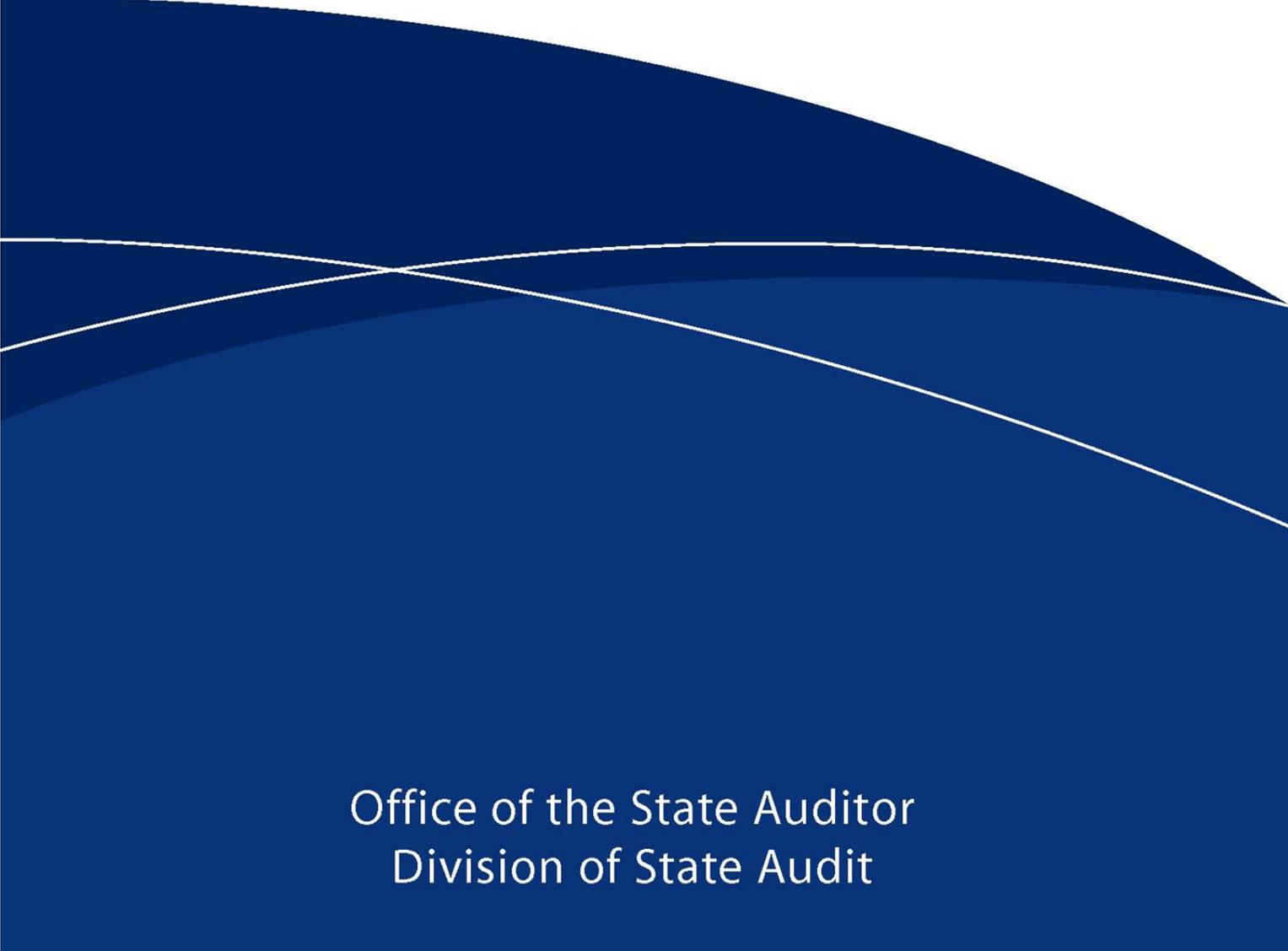
NORTH DAKOTA
DEPARTMENT OF
VETERANS AFFAIRS

FARGO, NORTH DAKOTA

Audit Report

For the Two-year Period Ended
June 30, 2010

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

March 29, 2011

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Mr. Lonnie Wangen, Commissioner

We are pleased to submit this audit of the North Dakota Department of Veterans Affairs for the two-year period ended June 30, 2010. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Mary Feltman, CPA. Robyn Hoffmann, CPA and Cory Wigdahl, CFE were the staff auditors. John Grettum, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7289. We wish to express our appreciation to Commissioner Wangen and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Department of Veterans Affairs was created under Section 37, Article 18 of the North Dakota Century Code. It is the function of the North Dakota Department of Veterans Affairs to coordinate agencies or instrumentalities of the state set up to render service and benefits to returning veterans; to have charge of and implement programs and benefits authorized by statute; to assist or represent veterans or their widows, administrators, executors, guardians, or heirs, in processing claims; to advise and assist veterans in taking advantage of the provisions of the Servicemen's Readjustment Act of 1944, or any similar or related measures afforded by the federal government; to assist, supervise, advise, and direct the work of county service officers; to assist county service officers in the formation of county service to veterans' committees and to outline, assist, and direct the activities of such committees.

North Dakota Century Code Chapter 37-18.1, created an Administrative Committee on Veterans' Affairs, which is responsible for the organization, policy and general administration of all veterans' affairs in the state of North Dakota.

The North Dakota Department of Veterans Affairs is also authorized, under North Dakota Century Code sections 37-14-03.3 and 37-14-04, to maintain a permanent revolving fund for the purpose of making loans to qualified veterans.

The Legislative Audit and Fiscal Review Committee (LAFRC) has requested that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's response are noted below.

Responses to LAFRC Audit Questions

1. What type of opinion was issued on the financial statements?

Financial statements were not prepared by the North Dakota Department of Veterans Affairs in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Other than our finding addressing "Proper Recording" (page 12), the North Dakota Department of Veterans Affairs was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

3. Was internal control adequate and functioning effectively?

Other than our prior finding not implemented addressing "Loans Receivables" (page 13), we determined internal control was adequate.

4. *Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

No. The recommendation related to "Loan Receivables" as detailed on page 13, was not implemented.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter containing five informal recommendations was issued and is included on page 14 of this report, along with management's response.

LAFRC Audit Communications

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The North Dakota Department of Veterans Affairs' financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. Identify any management consultations with other accountants about auditing and accounting matters.

None.

14. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.

ConnectND Finance, Human Resource Management System (HRMS), and Nortridge Loan System are high-risk information technology systems critical to the North Dakota Department of Veterans Affairs.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the North Dakota Department of Veterans Affairs for the two-year period ended June 30, 2010 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the North Dakota Department of Veterans Affairs operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the North Dakota Department of Veterans Affairs and are they in compliance with these laws?
3. Are there areas of the North Dakota Department of Veterans Affairs operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the North Dakota Department of Veterans Affairs is for the two-year period ended June 30, 2010. 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.

The North Dakota Department of Veterans Affairs' main office is in Fargo with a branch office in Bismarck. Both offices were included in the audit scope.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.

- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed North Dakota Department of Veterans Affairs processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

Discussion and Analysis

The accompanying financial statements have been prepared to present the North Dakota Department of Veterans Affairs revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the two-year period June 30, 2010, operations of the North Dakota Department of Veterans Affairs were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding and fees credited to the agency's operating fund.

Financial Summary

Revenues consisted primarily of interest and investment income and loan related revenue. These all remained fairly constant for the North Dakota Department of Veterans Affairs, increasing only slightly. Total revenues were \$142,869 for the year ended June 30, 2010 as compared to \$130,130 for the year ended June 30, 2009.

Total expenditures for the North Dakota Department of Veterans Affairs were \$747,309 for the year ended June 30, 2010 as compared to \$828,850 for the prior year. The decrease in total expenditures for the audited period reflects primarily grants, benefits and claims (\$64,000) resulting from a reduction in Post War Trust Funds available. There was a slight increase in IT equipment (\$18,000) for purchases of electronic storage system authorized by the 61st legislative assembly. All other expenditures remained fairly constant.

Analysis of Significant Changes in Operations

There were no significant changes in operations.

Analysis of Significant Variances - Budgeted and Actual Expenditures

There were no significant variances between final budgeted and actual amounts.

Financial Statements

Statement of Revenues and Expenditures

Revenues and Other Sources:	June 30, 2010	June 30, 2009
Miscellaneous General Revenue	\$ 117,823	\$ 110,922
Loan Related Revenues	21,854	17,469
Sale of Capital Assets	3,000	0
Interest & Investment Earnings	192	1,739
Total Revenues and Other Sources	\$ 142,869	\$ 130,130
Expenditures and Other Uses:		
Salaries and Benefits	\$ 344,808	\$ 338,917
Grants, Benefits & Claims	253,172	316,887
Travel	35,855	32,651
Rentals/Leases - Bldg/Land	35,421	28,943
IT Equip under \$5,000	18,757	1,006
IT - Data Processing	9,342	6,635
Professional Development	8,797	3,840
IT-Communications	6,189	7,525
Office Supplies	5,578	5,241
Rentals/Leases-Equip & Other	5,545	3,583
Supplies - IT Software	4,522	1,645
IT Contractual Services and Repairs	4,262	9,121
Printing	3,727	1,180
Utilities	2,275	2,693
Food and Clothing	1,831	1,605
Operating Fees and Services	1,640	705
Fees - Professional Services	1,973	14,851
Supply/Material-Professional	989	1,076
Postage	596	3,676
Miscellaneous Supplies	543	1,136
Insurance	481	572
Other Equip under \$5,000	298	355
Bldg, Grounds, Vehicle Supply	282	506
Office Equip & Furniture-Under	270	13,783
Repairs	156	718
Motor Vehicles	-	30,000
Total Expenditures and Other Uses	\$ 747,309	\$ 828,850

Statement of Appropriations

For The Biennium Ended June 30, 2009

Expenditures by Line Item:	Original		Expenditures		Unexpended Appropriations
	Appropriation	Adjustments	FY2008	FY2009	
Vets Affairs Administration	\$ 866,772	\$ 11,506	\$ 397,816	\$ 464,685	\$ 15,777
Totals	\$ 866,772	\$ 11,506	\$ 397,816	\$ 464,685	\$ 15,777
Expenditures by Source:					
General Fund	\$ 866,772	\$ 11,506	\$ 397,816	\$ 464,685	\$ 15,777
Totals	\$ 866,772	\$ 11,506	\$ 397,816	\$ 464,685	\$ 15,777

For The Year Ended June 30, 2010

Expenditures by Line Item:	Original		Expenditures		Unexpended Appropriations
	Appropriation	Adjustments	FY2010		
Technology Project Carryover		\$ 9,350	\$ 9,350		
Vets Affairs Administration	\$ 1,031,487		477,453		\$ 554,034
Totals	\$ 1,031,487	\$ 9,350	\$ 486,803	\$ -	\$ 554,034
Expenditures by Source:					
General Fund	\$ 1,031,487	\$ 9,350	\$ 486,803		\$ 554,034
Totals	\$ 1,031,487	\$ 9,350	\$ 486,803	\$ -	\$ 554,034

Appropriation Adjustments:

Vets Affairs Administration: The \$11,506 adjustment is for market equity compensation pursuant to SB 2189.

Technology Project Carryover: The capital construction carry-over committee approved \$9,350 from the prior biennium Discharge Project to be added to the current biennium appropriation authority.

Expenditures Without Appropriations Of Specific Amounts:

The Veterans Post War Trust Fund (fund 410) has a continuing appropriation authorized by NDCC section 37-14-14. All income received from investments is to be utilized only for programs of benefit and service to veterans or their dependents, and all income is appropriated to the administrative committee on veterans' affairs on a continuing basis for expenditure on these programs as authorized by law. The North Dakota Department of Veterans Affairs fund had expenditures of \$71,474 for fiscal year 2010 compared to \$191,358 for fiscal year 2009. This decrease in funds available for grants was due to market conditions relating to interest on investments.

The North Dakota State Treasurer had expenditures of \$46,818 for fiscal year 2010 compared to \$35,092 for fiscal year 2009. These expenditures are for administrative costs.

Internal Control

In our audit for the two-year period ended June 30, 2010, we identified the following areas of the North Dakota Department of Veterans Affairs internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the Nortridge Loan System.

The criteria used to evaluate internal control are published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of the North Dakota Department of Veterans Affairs in a management letter dated March 29, 2011.

Compliance With Legislative Intent

In our audit for the two-year period ended June 30, 2010, we identified and tested North Dakota Department of Veterans Affairs compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- The Veterans Aid Fund is only used for the purpose of making loans, collecting loans and paying administrative expense related to the making and collection of loans (North Dakota Century Code 37-14-03.3).
- Loans are limited to \$5,000, with interest rates not exceeding 10% (North Dakota Century Code 37-14-06, 07).
- Repayment period does not exceed 4 years, the interest rate does not exceed 10% and one half of the interest is waived if timely repayment. (North Dakota Century Code 37-14-07).
- The Veterans Affairs Subcommittee conducted an annual performance evaluation of the commissioner. The subcommittee also created and implemented a strategic plan (North Dakota Century Code 37-18.1-03.5).
- The North Dakota Department of Veterans Affairs reported to the 61st legislative Assembly on the use of one time funding of the biennium beginning 7/1/07 and ending 7/1/09 (07 HB1007, section 5).
- Committee members are reimbursed for travel, meals and lodging at state rates (North Dakota Century Code 37-18.1-04).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2007 North Dakota Session Laws chapter 7 and 2009 North Dakota Session Laws chapter 35).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts, petty cash funds and proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

Government Auditing Standards requires auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that have occurred or are likely to have occurred.

The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*. This finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above.

Proper Recording (Finding 10-1)

May and June 2009 receipts totaling \$23,152 for principal and interest was applied to and deposited with the State Treasurer in fiscal year 2010. September thru June 2010 receipts totaling \$118,386 for principal and interest was applied to and deposited with the State Treasurer in fiscal year 2011.

Receipts of public moneys must be deposited with the state treasurer monthly. Further, receipts should be applied to the year collected which in this case means these receipts should have been applied back to fiscal year 2009 and fiscal year 2010, respectively.

Article X, Section 12, subpart 1 of the ND Constitution states that all public moneys shall be paid over monthly to the state treasurer.

OMB Policy 200 states that every agency and institution is required to identify and record liabilities, receivables, inventories, and other financial statement data at the close of each fiscal year. The financial data must be reported in accordance with generally accepted accounting principles relating to year-end accruals of receipts and expenditures.

Recommendation:

We recommend that the North Dakota Department of Veterans Affairs deposit and record receipts and revenues in a timely manner and in the proper fiscal year, to be in accordance with the North Dakota Constitution and Generally Accepted Accounting Principles.

North Dakota Department of Veterans Affairs Response:

ND DVA agrees. Documentation is now in place to ensure transfers are being done in a timely manner and loan officer can follow up to reconcile and amounts will be applied back appropriately.

Prior Recommendations Not Implemented

Loan Receivables (Finding 08-1)

Recommendation:

In the prior audit we recommended that the North Dakota Department of Veterans Affairs run accurate reports of loans receivable at year end and those reports be kept as support for the closing packages. Any inconsequential balance that is not deemed to be collectable be written off to clean up the system.

Status:

The June 30, 2010 and 2009 loans receivable trial balances were not accurate. The reports are only current as of the day the report was run and they were not run on the proper dates. They included current loans entered into after June 30, 2010 and 2009, respectively. As a result the loan receivable closing packages submitted for fiscal year 2010 and fiscal year 2009 were unsupported and inaccurate.

North Dakota Department of Veterans Affairs Response:

ND DVA agrees. The auditor's office will assist ND DVA with 2011 GAAP report to ensure the numbers are accurate.

Management Letter (Informal Recommendations)

March 29, 2011

Mr. Lonnie Wangen, Commissioner
North Dakota Department of Veterans Affairs
4201 38th Street SW, Suite 104
Fargo, ND 58106-9003

Dear Mr. Wangen:

We have performed an audit of the North Dakota Department of Veterans Affairs for the two year period ending June 30, 2010, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Department of Veterans Affairs' internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

Receipts (Informal Recommendation 10-1):

Per our review there were 6 deposit slips out of our test of 25, where a receipt was not issued for a check listed on the deposit slip. All of the checks in question were from a collection agency.

Good internal controls encompass issuing receipts for all incoming checks/cash, to 'complete' the audit trail.

Recommendation:

We recommend that the ND Department of Veterans Affairs implement policies, procedures and practices requiring detailed receipts for all incoming checks/cash.

North Dakota Department of Veterans Affairs Response:

ND DVA agrees. Receipts are given to clients who make check or cash payments in person. In these 6 instances one check was received by our collections agent (Progressive) with a list of the clients who made the payment. The list was used as the receipt. ND DVA will now create separate receipts from the ND DVA receipt book and place a copy in the client's folder.

Purchase Cards (Informal Recommendation 10-2)

We noted the following issues regarding the purchase card:

- The purchase card administrator has a purchase card;
- The monthly statements are not being signed by the individual cardholders; and
- Receipts are not always being retained. In our test of 20 purchase card receipts, 2 were missing.

Per the State of North Dakota purchase card manual "For purposes of defining the control hierarchies for the purchasing card program, each agency is assigned a Hierarchy ID. Consequently, each agency will be responsible for administering the purchasing card program at the agency level. In order to facilitate program implementation and provide for ongoing program administration, each agency should designate a person as the agency card administrator (CA). To help ensure the adequacy of internal control surrounding agency purchasing card programs, the agency card administrator/authorized signer may not be a cardholder. However, if agency size or other constraints make this unfeasible, the Office of Management and Budget (OMB) may assume card maintenance duties for an agency. Contact OMB for more information regarding card maintenance."

Effective and efficient business practices require that receipts be maintained for all purchases to support the amount and business purpose.

Recommendation:

We recommend that:

- The NDDVA administrator not be a card holder;
- The individual cardholders reconcile and sign their individual statements; and
- All receipts for purchase card purchases are retained.

North Dakota Department of Veterans Affairs Response:

ND DVA agrees:

- *The purchasing card administrator role will be re-assigned and the administrator will not be a card holder.*
- *Individual card holders will reconcile and sign their statements each month.*
- *Receipts will be retained.*

Loan Restructure Approvals (Informal Recommendation 10-3)

When reviewing loans receivables we noted that a \$5,000 restructure for loan 9273A was not documented or approved by the commissioner.

Good internal controls and business practice require procedures in place to ensure all adjustments to loans are documented and approved by someone other than the preparer.

Recommendation:

We recommend that policies, procedures and practices require all adjustments to the loans, including restructures, be documented by the financial assistant and approved by the Commissioner.

North Dakota Department of Veterans Affairs Response:

ND DVA agrees. Original loan 9273A was documented and approved by commissioner. Immediately after approval of the loan the clients payment due date needed to be changed, which required a restructure in the loan system. No additional funds were loaned out. In the future the restructure will be documented and provided to the commissioner for approval.

Bank Reconcilements (Informal Recommendation 10-4)

We noted 6 out of the 8 monthly bank reconciliations sampled did not have proper support for all items listed on the bank reconciliations, nor were the bank reconciliations consistently completed.

Having proper/adequate support for all items listed on the bank reconciliations will help ensure that all entries made on the general ledger are proper and mathematically correct. Completing the bank reconciliation process consistently should lead to improved reconciling procedures (i.e. properly categorizing additions/subtractions).

Recommendation:

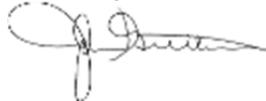
We recommend that the North Dakota Department Veteran Affairs implement policies, procedures and practices that require monthly bank reconciliations to be completed consistently with proper support for all items listed on the monthly bank reconciliations.

North Dakota Department of Veterans Affairs Response:

ND DVA agrees and will ensure that monthly bank reconciliations are done consistently and all items listed have proper supporting documentation.

I encourage you to call me at 701-239-7289 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



John Grettum, CPA
Audit Manager

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