

North Dakota Department of
Veterans Affairs
FARGO, NORTH DAKOTA
Audit Report

Two-year Period Ended
June 30, 2018

Joshua C. Gallion
State Auditor



Office of the State Auditor
Division of State Audit



Why We Conducted this Audit

The purpose of this audit was to determine that financial transactions including expenditures were made in accordance with law and appropriation requirements.

What We Found

The North Dakota Department of Veterans Affairs mission is to assist veterans of North Dakota in obtaining all the benefits in which they are entitled to. The department consists of five main programs: Veterans Aid Loan Program, Hardship Grant Program, Commemorative Memorial Coins, Service Dogs, and the Transportation Program. The North Dakota Department of Veterans Affairs operates under the supervision of the Administrative Committee on Veterans Affairs and North Dakota Century Code (NDCC) Chapter 37-18.

The North Dakota Department of Veterans Affairs complied with law and appropriation requirements.

Memorial Coin

Established by the 65th Legislative Assembly to create and confer a commemorative memorial coin to the family of a deceased North Dakota veteran during military funeral honors at no cost.



Featured Facts

- To date, 1228 coins have been conferred to families.
- 577 additional coins have been purchased at \$10 a coin by families.
- Provided at all ND funeral homes.

Source: North Dakota Department of Veterans Affairs

Service Dog Program

Established during the 63rd Legislative Assembly, this program provides a specially trained dog to North Dakota veterans suffering from Post-Traumatic Stress Disorder (PTSD). The North Dakota Department of Veterans Affairs properly award the service dogs to North Dakota Veterans with PTSD.

**LEGISLATIVE AUDIT AND FISCAL REVIEW
COMMITTEE MEMBERS**

**Senator Jerry Klein – Chairman
Representative Chet Pollert – Vice Chairman**

Representatives

**Bert Anderson
Patrick Hatlestad
Mary Johnson
Keith Kempenich
Gary Kreidt
Andrew G. Maragos
Mike Nathe
Marvin E. Nelson
Wayne A. Trottier**

Senators

**Dwight Cook
Judy Lee
Richard Marcellais**

AUDITOR AND AGENCY PERSONNEL

State Auditor Personnel

**Robyn Hoffmann, CPA, Audit Manager
Alex Mehring, CPA, Lead Auditor
Travis Klinkhammer, CPA
Tyler Liebl
Kalley Suter**

Primary State Agency Contacts

**Lonnie Wangen, Commissioner
Cathy Halgunseth, Chief Administrator**

Contents

<i>Transmittal Letter</i>	<i>1</i>
<i>Audit Results</i>	<i>2</i>
<i>Statutory Audit Requirements</i>	<i>2</i>
<i>Conclusion</i>	<i>2</i>
<i>Background Information and Results</i>	<i>2</i>
<i>Internal Control</i>	<i>3</i>
<i>Scope</i>	<i>3</i>
<i>Methodology</i>	<i>3</i>
<i>Authority and Standards</i>	<i>4</i>
<i>Financial Statements</i>	<i>5</i>
<i>Statement of Revenues and Expenditures</i>	<i>5</i>
<i>Statement of Appropriations</i>	<i>6</i>
<i>LAFRC Responses</i>	<i>7</i>
<i>Responses to LAFRC Audit Questions</i>	<i>7</i>
<i>LAFRC Audit Communications</i>	<i>7</i>



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
FARGO BRANCH OFFICE
1655 43rd STREET SOUTH, SUITE 203
FARGO, NORTH DAKOTA 58103

Transmittal Letter

April 2, 2019

Members of the North Dakota Legislative Assembly
Members of the Administrative Committee on Veterans Affairs
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, 2018. 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.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Additionally, whenever possible additional audit objectives are included to increase efficiency and effectiveness of state government.

Robyn Hoffmann, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 239-7291. 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,

/s/

Joshua C. Gallion
State Auditor

Audit Results

Statutory Audit Requirements

The objective related to our statutory audit requirements is:

Are there any exceptions to report relating to statutorily required audit testing?

Statutorily required audit testing includes: performing the post audit of financial transactions, detecting and reporting any defaults, determining that expenditures have been made in accordance with law, appropriation acts, and emergency commission action, and evaluating blanket bond coverage. Defaults are defined as failures to do something required by duty or law. Bonding coverage provides insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

Conclusion

No exceptions to our statutorily required audit testing were identified.

Background Information and Results

Audit procedures included testing compliance with appropriation laws and evaluating the adequacy of blanket bond coverage. The audit also determined the commemorative memorial coin was properly procured, service dogs were properly awarded, and if the Impact Grants were in compliance with state law.

The North Dakota Department of Veterans Affairs was established by the North Dakota Legislature in 1927 and operates under North Dakota Century Code Chapter 37-18. It is the function of the 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 provide counties with recommended qualifications and standards for county veterans' service officers; to assist counties with training of county veterans' service officers; to provide county veterans' service officers with educational materials; to assist county veterans' service officers in the performance of their duties; to disseminate information; and to do any and all things necessary and proper for the purpose of carrying out the intent of NDCC 37-18.

The Department of Veterans Affairs is unique to state government as they operate to assist veterans of North Dakota and their families. The department consists of five main programs intended to benefit veterans:

- 1) Veterans Aid Loan Program – Established to provide up to a \$5,000 loan to veterans or their widow and if all the terms of the loan are met, one half of the interest will be repaid.
- 2) Hardship Grant Program – Established and funded by the earnings of the Postwar Trust Fund with additional funding being provided by the Impact

- Grant. The purpose of this program is to provide services for unmet medical, housing, or other emergency needs.
- 3) Service Dogs – Established to provide ND veterans suffering with PTSD with a specially trained service dog.
 - 4) Memorial Coin - Established by the 65th Legislative Assembly to create and confer a commemorative memorial coin to one family member of a deceased ND veteran.
 - 5) Transportation Program - This program is intended to make healthcare more accessible for veterans and provides transportation to and from the Veterans Hospital or outpatient clinics.

NDCC 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, including oversight of the Department of Veterans Affairs.

Internal Control

We gained an understanding of internal control 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.

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: misstatements in financial or performance information, violations of laws and regulations or impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any deficiencies in internal control that were significant within the context of our audit objectives and based upon the audit work performed.

Scope

This audit of the Department of Veterans Affairs is for the two-year period ended June 30, 2018.

The Department of Veterans Affairs' sole location is its Fargo office which was included in the audit scope.

Methodology

To meet this objective, we:

- 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.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- Observed the Department of Veterans Affairs' processes and procedures.
- Inspected documentary evidence.
- Tested compliance with appropriation laws and regulations including related transfers and emergency commission action. Where necessary, internal

- control was tested to determine if controls were operating effectively and if laws were being followed consistently.
- Reviewed adequacy of blanket bond coverage by comparing coverage to state bonding guidelines.
 - Performed an analysis and selected a sample of high-risk transactions, including Impact Grant expenditures, Service Dogs, and the Commemorative Memorial coins for further testing.
 - Performed an analysis and reviewed tracking procedures for the Highly Rural Transportation Grant.

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

Authority and Standards

This biennial performance audit of the Department of Veterans Affairs has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* issued by the Comptroller General of the United States. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

The criteria used to evaluate internal control is published in the publication *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216).

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2018</u>	<u>June 30, 2017</u>
<u>Revenues and Other Sources:</u>		
Federal Revenue	\$ 366,564	\$ 375,546
Loan Principal and Interest	97,825	107,625
Contributions and Private Grants	56,507	39,335
Investment Earnings	394	164
Sale of Capital Assets		6,268
Total Revenue and Other Sources	<u>\$ 521,290</u>	<u>\$ 528,938</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$ 558,371	\$ 664,000
Grants, Benefits and Claims	167,951	289,823
Travel	122,968	98,132
Operating Fees and Services	106,224	161,386
Rentals/Leases- Building/Land	38,979	40,199
IT-Data Processing	26,057	23,768
Building, Grounds, Vehicle Supply	23,277	20,534
Professional Fees and Services	11,380	7,546
Supplies-IT Software	6,205	6,196
Insurance	5,946	6,153
Rentals/Leases-Equipment and Other	4,809	8,979
Utilities	3,944	3,857
IT-Communication	2,792	3,370
Professional Development	1,510	6,763
IT Contractual Services and Repairs	1,204	1,821
Office Supplies	574	7,399
IT Equipment under \$5,000	242	8,238
Supply/Material-Professional	157	932
Postage	143	1,406
Printing	138	1,976
Miscellaneous Supplies	9	4,784
Office Equipment and Furniture under \$5,000		446
Total Expenditures and Other Uses	<u>\$ 1,082,880</u>	<u>\$ 1,367,708</u>

Source: ConnectND Financials

Statement of Appropriations

For the Biennium Ended June 30, 2017

Expenditures by Line Item:	Original Appropriation	Adjustments	Final Appropriation	Expenditures	Unexpended Appropriation
Technology Project Carryover		\$ 4,756	\$ 4,756	\$ 3,136	\$ 1,620
Grant - Agent Orange	\$ 50,000		50,000	50,000	
Vets Affairs Administration	1,719,895	1,340,465	3,060,360	2,134,235	926,125
General Fund Transfers	25,000		25,000	25,000	
Totals	<u>\$ 1,794,895</u>	<u>\$ 1,345,221</u>	<u>\$ 3,140,116</u>	<u>\$ 2,212,371</u>	<u>\$ 927,745</u>
Expenditures by Source:					
General Funds	\$ 1,506,877	\$ 16,356	\$ 1,523,233	\$ 1,518,062	\$ 5,171
Federal Funds	288,018	1,328,865	1,616,883	694,309	922,574
Totals	<u>\$ 1,794,895</u>	<u>\$ 1,345,221</u>	<u>\$ 3,140,116</u>	<u>\$ 2,212,371</u>	<u>\$ 927,745</u>

Source: ConnectND Financials

For the Year Ended June 30, 2018

Expenditures by Line Item:	Original Appropriation	Adjustments	Final Appropriation	Expenditures	Unexpended Appropriation
Transport Vans	\$ 37,200		\$ 37,200		\$ 37,200
Grants - Transportation Program	1,719,520		1,719,520	\$ 255,342	1,464,178
Vets Affairs Administration	1,168,015		1,168,015	543,499	624,516
Contingent Service Dogs	50,000		50,000		50,000
State Approving Agency	271,998		271,998	101,336	170,662
Totals	<u>\$ 3,246,733</u>	<u></u>	<u>\$ 3,246,733</u>	<u>\$ 900,177</u>	<u>\$ 2,346,556</u>
Expenditures by Source:					
General Funds	\$ 1,155,162		\$ 1,155,162	\$ 543,604	\$ 611,558
Federal Funds	2,091,571		2,091,571	356,573	1,734,998
Totals	<u>\$ 3,246,733</u>	<u></u>	<u>\$ 3,246,733</u>	<u>\$ 900,177</u>	<u>\$ 2,346,556</u>

Source: ConnectND Financials

LAFRC Responses

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

Responses to LAFRC Audit Questions

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

This question is not applicable for performance audits. The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

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

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

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?

Yes.

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

No, a management letter was not issued.

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, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

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 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 Department of Veterans Affairs. No exceptions related to the operations of an information technology system were noted.

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060

(701) 328-2241