

Performance Audit Report

North Dakota Department of Veterans Affairs

Report No. 3039-17(b)

March 28, 2018

State Auditor
Joshua C. Gallion

Office of the State Auditor
Division of Performance Audit

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March 28, 2018

Honorable Doug Burgum, Governor
Members of the North Dakota Legislative Assembly
Dean Overby, Chairman, Administrative Committee on Veterans Affairs
Richard Belling, Chairman, Department of Veterans Affairs and Budget Subcommittee
Lonnie Wangen, Commissioner, Department of Veterans Affairs

This report contains the results of a performance audit on aspects of the North Dakota Department of Veterans Affairs. The audit was conducted under the authority granted within North Dakota Century Code Chapter 54-10, which allows the State Auditor to perform performance audits of state agencies as determined necessary by the State Auditor or the Legislative Audit and Fiscal Review Committee. The report presents our finds, conclusions, and recommendations, and the responses of the Department of Veterans Affairs.

Respectfully Submitted,

/S/

Joshua C. Gallion
State Auditor

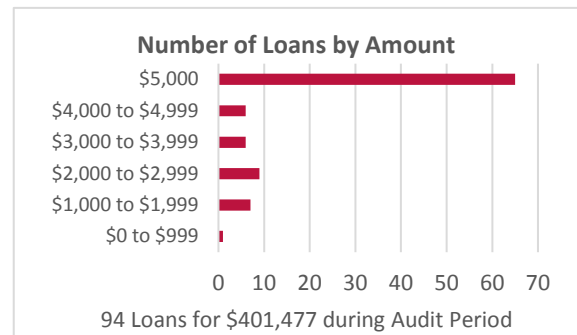
Department of Veterans Affairs Report Highlights

Veterans Aid Loan Program:

The Department has not established underwriting guidelines to use when determining an applicant's financial ability to repay the loan. Thus, loan determinations are based primarily on the Department's discretion.

The Department was not consistently adhering to the ACOVA's loan collection policies and procedures for delinquent loans.

The Veterans Aid Loan System was outsourced to a vendor without receiving an exemption from the Information Technology Department.

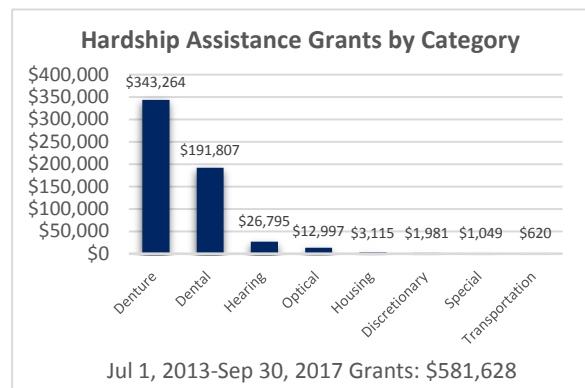


Source: ConnectND Financial

Hardship Assistance Grants Program:

Certain policies for Hardship Assistance Grants are unclear, no longer relevant and/or effective in achieving the objectives of the program.

The information system used to track Hardship Assistance Grants is inadequate to meet the Department of Veterans Affairs' needs. The Department doesn't have the resources to redesign the system.



Source: Department of Veterans Affairs Hardship Assistance Grants Database

Impact Grants:

The Department of Veterans Affairs is using state resources to solicit donations and process applications for a non-governmental entity without Legislative authorization.

The Department of Veterans Affairs expended funds received from the Impact Foundation without Legislative or Emergency Commission approval. During our audit period, the Department of Veterans Affairs deposited \$115,778 from the Impact Foundation.

Highly Rural Transportation Grants Program:

The Department of Veterans Affairs is using federal funds awarded under the Highly Rural Transportation Grants program for administrative costs to the extent allowable.

Purpose and Authority of the Audit

The performance audit of the North Dakota Department of Veterans Affairs was conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code (NDCC) Chapter 54-10. This audit was prompted by a Legislative Audit and Fiscal Review Committee request.

Performance audits are defined as engagements that provide assurance or conclusions based on an evaluation of sufficient, appropriate evidence against stated criteria, such as specific performance requirements, measures, or defined business practices. Performance audits provide objective analysis so management and those charged with governance and oversight can use the information to improve performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability. The purpose of this report is to communicate our analysis, findings, and recommendations based on our review of the Department of Veterans Affairs.

Background Information

The Department of Veterans Affairs is established in NDCC Chapter 37-18 under the supervision and control of the Commissioner of Veterans Affairs. According to NDCC Section 37-18-04, it is the duty of the Commissioner to:

- Coordinate agencies or instrumentalities of the state set up to render services and benefits to returning veterans.
- Have charge of and implement programs and benefits authorized by statute.
- Assist or represent veterans or their widows, administrators, executors, guardians, or heirs, in processing claims.
- Advise and assist veterans in taking advantage of the Servicemen's Readjustment Act of 1944, or any similar or related measures afforded by the federal government.
- Provide counties with training of county veterans' service officers.
- Provide county veterans' service officers with educational materials.
- Assist county veterans' service officers in the performance of their duties.
- Disseminate information.
- Do any and all things necessary and proper to carrying out the intent and purposes of NDCC Chapter 37-18.

The Administrative Committee on Veterans Affairs (ACOVA) is responsible for organization, policy, and general administration of all veterans affairs in the state of North Dakota. The chairman and secretary of the ACOVA appoint a subcommittee responsible for supervision and government of the Department of Veterans Affairs. The ACOVA appoints the Commissioner of Veterans Affairs. The Commissioner serves at the pleasure of the ACOVA.

Objective of the Audit

The Office of the State Auditor established three objectives for this performance audit of the Department of Veterans Affairs. The objectives were:

“Are there opportunities to improve the administration of the Veterans Aid Loan program?”

“Are there opportunities to improve the administration of the Hardship Assistance Grants program?”

“Are there opportunities to enhance the use of federal funds awarded under the Highly Rural Transportation Grant program for administrative costs?”

Scope and Methodology

The Office of the State Auditor conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

Audit field work was conducted from October 12, 2017 to March 28, 2018. The audit time period was July 1, 2013 to September 30, 2017. In certain instances, additional information was reviewed. This was done, in part to determine the administration of Veterans Aid Loans issued prior to the audit time period.

As part of this audit, controls surrounding compliance with significant laws and policies were evaluated. Deficiencies identified with internal controls determined to be significant are addressed in this audit report. Deficiencies of less significance were communicated in a separate letter to the Commissioner of Veterans Affairs.

Other methodologies included, (not all inclusive):

- Obtaining an understanding of information systems significant within the context of our audit objectives.
- Performing analyses of certain revenues and expenditures.
- Reviewing selections of Veterans Aid Loans and Hardship Assistance Grants.
- Identifying lending best practices through internet searches and correspondences with a representative from the Bank of North Dakota.
- Researching the history of the Veterans Aid Fund.
- Identifying the cash balance and estimated the fund balance of the Veterans Aid Fund as of June 30, 2017.
- Reviewing information related to Impact Grants and the history of the Veterans Aid Fund.
- Reviewing grant applications, award letters, and other correspondences related to the Highly Rural Transportation Grants program.
- Interviewing the Highly Rural Transportation Grants program's national coordinator.

Veterans Aid Loan Program

In this section, opportunities where the Department of Veterans Affairs could improve the administration of the Veterans Aid Loan program are outlined.

Summary

The Veterans Aid Loan program is based on requirements established in NDCC Chapter 37-14 related to the Veterans Aid Fund. The Veterans Aid Fund is a permanent revolving fund and its purpose is to make loans to any eligible veteran and to a surviving spouse of an eligible veteran if the spouse has not remarried. Moneys in the fund are also available for:

- Collecting loans if, in the opinion of the Department of Veterans Affairs, a person has the financial means to repay and that person deliberately refuses to repay; and
- Paying administrative expenses related to the making and collection of loans made from the fund.

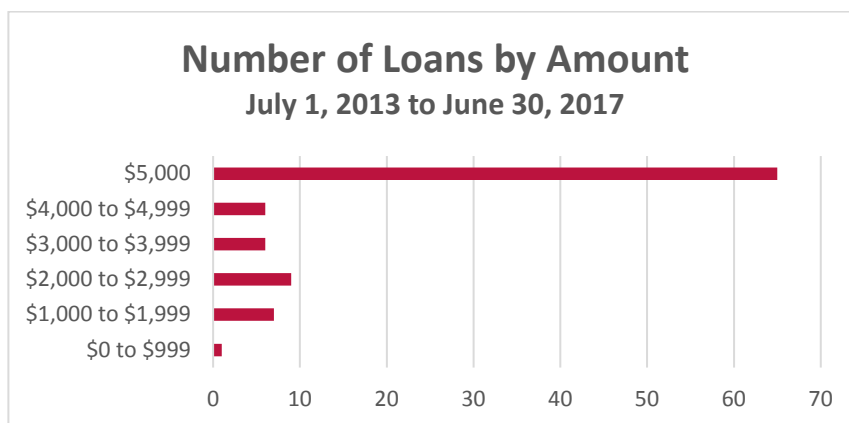
According to NDCC Section 37-14-05, a qualified person may apply to the Department of Veterans Affairs for a loan, either while the applicant is waiting for relief or assistance from another agency, state or federal, or for further assistance for the applicant's education, or otherwise. The ACOVA is authorized to establish rules and regulations to administer the program. Criteria set by the ACOVA regarding qualifications to obtain a loan stipulate:

- Applicants must have the financial ability to repay the loans.
- Loans will not be issued to anyone with an outstanding tax lien.
- Loans will not be issued to anyone who is not current on paying child support.
- Loans will not be granted to applicants for the purpose of relocating to another state.
- Loans are not to be used to consolidate debt.

If the Department of Veterans Affairs determines that an applicant meets the eligibility requirements and criteria set by the ACOVA to obtain a loan, the Department may loan the applicant up to \$5,000 for a specified period not to exceed four years. The applicant is required to repay the full amount with interest (not to exceed ten percent annually). One-half of the interest must be waived if timely repayment is made. The current interest rate established by the ACOVA is eight percent annually. The Department of Veterans Affairs is authorized to take necessary legal action to collect or settle loans and to assess and collect late payment penalties.

According to the history of the Veterans Aid Fund, it appears the Veterans Aid Fund was initially appropriated \$300,000 in 1947 for making loans. In 1981, the amount for making loans was increased to \$700,000. In 2003, an amendment to NDCC Section 37-14-03.3 replaced the dollar amount with "moneys in" the Veterans Aid Fund. As of June 30, 2017, the Veterans Aid Fund had a cash balance of \$331,764 with an estimated total fund balance of \$538,000.

From July 1, 2013 to June 30, 2017, the Department of Veterans Affairs disbursed 94 Veterans Aid loans totaling \$401,477. Sixty-five loans were issued at the \$5,000 maximum amount with an additional six loans being restructured up to \$5,000. The chart below illustrates the number of loans by loan amount.



Source: ConnectND Financials

Audit Findings

Establish Underwriting Guidelines

To obtain a Veterans Aid Loan, the ACOVA requires that an applicant must have the financial ability to repay the loan. However, the Department of Veterans Affairs has not established underwriting guidelines to use when determining an applicant's financial ability to repay the loan. Thus, loan determinations are based primarily on the Department's discretion, which could result in inconsistent outcomes and inequitable treatment of veterans.

The ACOVA requires the Department of Veterans Affairs to obtain a credit report and bankruptcy check for every application received. The Department uses the credit report to check for a bankruptcy, outstanding tax lien or child support, and to verify certain liabilities/obligations listed on the application. However, no guidelines exist on how to respond to an applicant with a bankruptcy or how to use a credit score in the determination of an applicant's financial ability to repay the loan.

Each applicant is required to submit a completed application along with required documentation to the Department of Veterans Affairs. Information collected on the application includes: income, spouse, benefits, accounts (checking, savings, etc.), assets, liabilities/obligations, bankruptcy, and reason for loan. Required documentation includes: cash asset verification form, copies of paystubs and/or benefit award letters, and copy of applicant's 1040 tax form or statement that he/she did not file taxes. The cash asset verification form is completed by the applicant's bank or financial institution and sent directly to the Department. The Department uses a portion of the information to calculate an applicant's unobligated income. However, no guidelines exist related to the amount of cash assets or unobligated income an applicant needs to be considered as having the financial ability to repay the loan.

In certain instances, the Department of Veterans Affairs also includes the income of a spouse when determining an applicant's unobligated income even though the spouse is not contractually obligated on the loan. In addition, the Department does not obtain the spouse's credit report to identify the spouse's debts and obligations or the spouse's creditworthiness. No guidelines exist as to whether or not spousal information should be considered in determining an applicant's financial ability to repay a loan.

According to best practices, which includes information obtained from a representative of the Bank of North Dakota, the Department of Veterans Affairs should develop underwriting guidelines for staff to use when determining an applicant's financial ability to repay the loan. The guidelines should be developed in line with the objectives of the Veterans Aid Loan program. As a result, the Department's loan determinations would be based primarily on the underwriting guidelines and less on the Department's discretion which should promote more consistent outcomes. In addition, income of a spouse is typically not considered unless the spouse is contractually obligated on the loan. Potential factors to consider adding in the underwriting guidelines include:

- Minimum credit score
- Debt to income ratio
- Discretionary income and/or cash and other assets
- Bankruptcy
- Delinquent accounts
- Income of a spouse

State law allows applicants to appeal decisions made by the Department of Veterans Affairs to the ACOVA. Thus, the ACOVA Appeals Committee would have the authority to deviate from the underwriting guidelines as determined necessary.

Recommendation 1

The State Auditor recommends the Department of Veterans Affairs establish underwriting guidelines for determining an applicant's financial ability to repay the loan.

Management's Response

NDDVA agrees. NDDVA will work with the ACOVA, Attorney General's Office and the Bank of ND to establish underwriting guidelines for determining an applicant's ability to repay a loan.

Adhere to the ACOVA's Loan Collection Policies and Procedures

According to policies and procedures approved by the ACOVA for the Veterans Aid Loan program:

- A specific delinquency letter is to be sent at 30, 60, 75, and 90 days after payment date.
- A \$15.00 fee is to be assessed to any payment that is not received in a timely manner.
- A loan is to be turned over to a collection entity after 90 days of nonpayment unless the applicant has contacted the department and negotiated a repayment agreement approved by the Commissioner.
- After three years of nonpayment, the loan is to be charged off, but the account may be brought back at any given time.

The Department of Veterans Affairs was not consistently adhering to the loan collection policies and procedures outlined above for delinquent loans. For example:

- Delinquency letters were not being sent at 30, 60, 75, and 90 days after payment date.
- Late fees were not assessed or in certain instances, if late fees were assessed, the late fees were later reversed or waived.
- Loans without a negotiated repayment agreement were not turned over to collection after 90 days of nonpayment.
- Loans were not charged off after three years of nonpayment.

The Department of Veterans Affairs also waived the interest for certain loans under negotiated repayment agreements. However, program policy sets the interest rate at eight percent calculated daily on the unpaid principal balance. It is unclear whether the intent of a negotiated repayment agreement includes waiving the interest on such loans.

Recommendation 2

The State Auditor recommends the Department of Veterans Affairs adhere to the ACOVA's loan collection policies and procedures for delinquent loans.

Management's Response

NDDVA agrees. NDDVA will follow ACOVA policies and procedures. NDDVA will work with ACOVA and Attorney General's Office to provide a structured plan to ensure the principal of the loan is recouped while minimizing the harm to a veteran's credit and financial capabilities.

Comply with Outsourcing Requirements

The Department of Veterans Affairs has entered into a service agreement with a vendor to outsource hosting services without receiving an exemption from Information Technology Standards or Statutory Policies.

NDCC Section 54-59-22 requires the Department of Veterans Affairs to obtain database administration, storage, and hosting services through a delivery system established by the Information Technology Department. According to the Information Technology Department, agencies who intend to outsource hosting services or application to an external hosting provider must request for an exemption from Information Technology Standards or Statutory Policies after the intent to award and before the contract is signed.

Recommendation 3

The State Auditor recommends the Department of Veterans Affairs comply with the Information Technology Department's requirements for outsourcing.

Management's Response

NDDVA agrees. An SFN 51687 Hosting waiver was completed and submitted to the ND ITD department. NDDVA continues to work with ITD on this requirement.

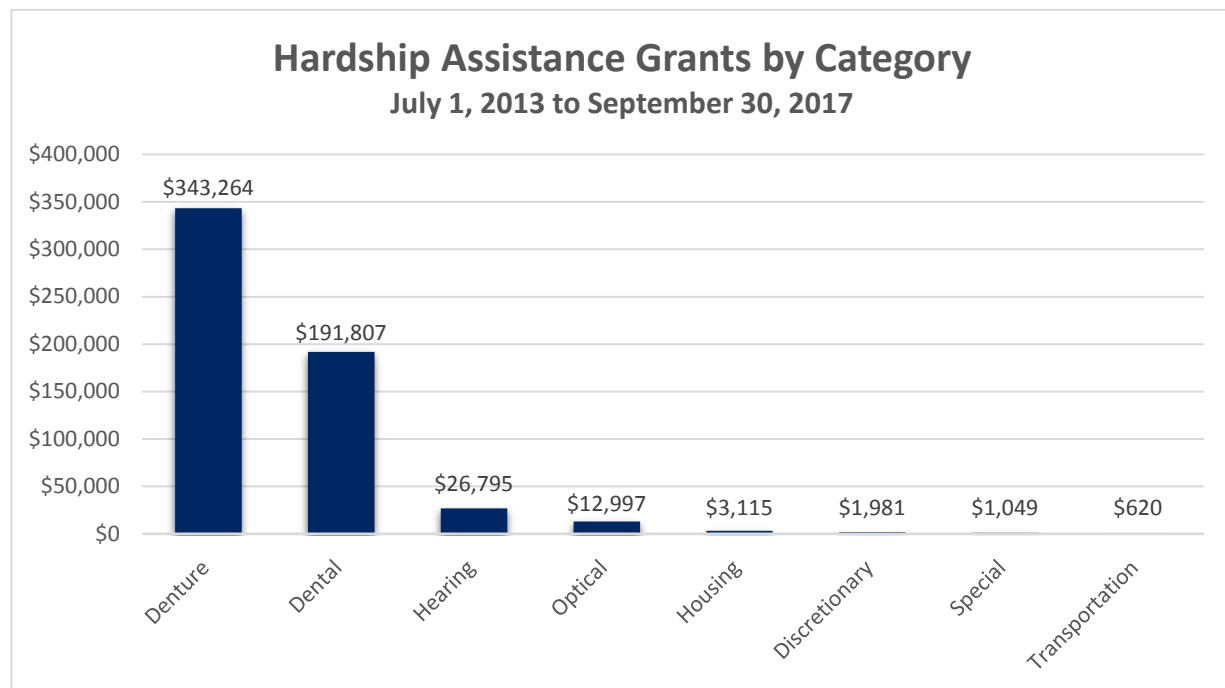
Hardship Assistance Grants Program

In this section, opportunities where the Department of Veterans Affairs could improve the administration of the Hardship Assistance Grants program are outlined.

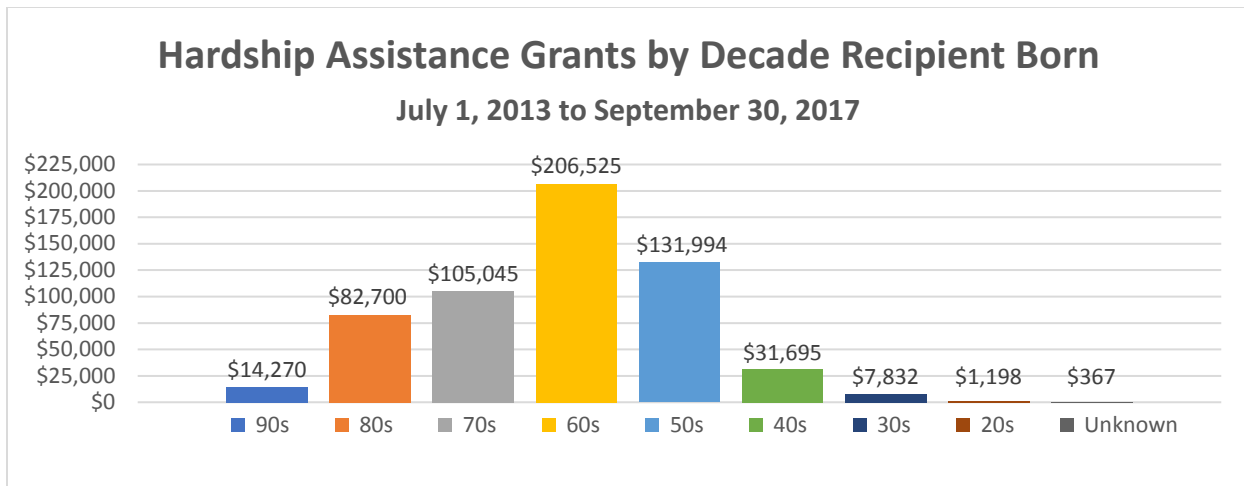
Summary

The Hardship Assistance Grants program is a state grant program established by the Administrative Committee on Veterans Affairs (ACOVA). The purpose of the Hardship Assistance Grants program is to give aid and comfort to eligible Veterans and their spouses or un-remarried widow/widowers using income generated from Veterans' Postwar Trust Fund investments. The individual must have an unmet need of dental and/or denture work, optical, hearing, transportation (for medical treatment), special needs for medical reasons, housing deposit, or other emergency needs approved by the Commissioner of Veterans Affairs. Eligibility criteria for the Hardship Assistance Grants program, including income and cash asset limits, are set in policy approved by the ACOVA.

During our audit period, the Department of Veterans Affairs paid \$581,627 in Hardship Assistance Grants. The following charts illustrate the amount of grants paid by category and the amount of grants paid based on the decade in which the recipient was born.



Source: Information obtained from the Department of Veterans Affairs' Hardship Assistance Grants database and ConnectND Financials.



Source: Information obtained from the Department of Veterans Affairs' Hardship Assistance Grants database and ConnectND Financials.

Audit Findings

Review Policies

Certain Hardship Assistance Grants program policies are unclear, no longer relevant and/or effective in achieving the objectives of the program.

The Applicant Requirements policy was recently changed to enable an applicant to be eligible for a grant without meeting the definition of a veteran in NDCC Section 37-14-01.1. This policy change could inadvertently result in noncompliance with state laws. In addition, neither North Dakota Century Code nor the policy defines the phrase "discharged under other than dishonorable conditions." A veteran received a grant whose character of discharge was "Other Than Honorable Conditions" and the narrative reason for the separation indicated it was "for the good of the service." The Department of Veterans Affairs' interpretation is that this phrase only excludes individuals with a "Dishonorable" discharge. However, the federal government uses a similar phrase to determine eligibility for certain programs and has further defined the phrase as it relates to the respective programs. For example,

- The Veterans Benefits Administration website states, "*To receive VA compensation benefits and services, the Veteran's character of discharge or service must be under other than dishonorable conditions (e.g., honorable, under honor conditions, general).*"
- The Social Security Handbook lists the types of separations considered issued under dishonorable conditions. The types of separations listed include:
 - A bad conduct discharge issued as a result of a sentence by a general court martial
 - A discharge for desertion
 - In the case of an officer, a resignation accepted "for the good of the service"

The Hardship Assistance – Medical policy sets the dental grant limit at \$1,000 (one per calendar year). The policy lists the allowable uses of the dental grant. The Department of Veterans Affairs allows the dental grant to be used towards denture procedures. However, denture procedures are not listed as an allowable use of the dental grant. Thus, it is unclear whether this practice

results in noncompliance or meets the objectives of the program established by the Administrative Committee on Veterans Affairs.

The Hardship Assistance – Medical policy also sets the denture procedures grant limit at \$3,000 (one per calendar year). The policy allows the denture grant to be used towards full or partial dentures and any required extractions. Applicants are required to provide an estimate with their application. The Department of Veterans Affairs allows grant recipients to carry forward unused denture grants from one calendar year to the next and piggy-backs two calendar year awards to cover procedures estimated to cost over \$3,000. However, award letters indicate the grant program is a one-time grant per calendar year and does not carry over if the maximum amount is not used in full. Thus, it is unclear whether this practice results in noncompliance or meets the objectives of the program established by the Administrative Committee on Veterans Affairs. In addition, the piggy-backing process is ineffective and inefficient. The process requires applicants to submit two applications and additional staff time to review duplicative applications for the same request for services. If the objective of the program is to cover more than \$3,000 in denture costs, a more effective option would be to raise the limit to eliminate the duplication of efforts.

The Cancellation policy is vague. The policy states, “Commissioner or Authorizing Agent has the ability to cancel the grant after a given time period.” The objectives of the program should be defined in measurable terms, so that performance toward achieving those objectives can be assessed.

According to the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G), management should periodically review policies and procedures for continued relevance and effectiveness in achieving the entity’s objectives.

Recommendation 4

The State Auditor recommends the Department of Veterans Affairs:

- Review policies for clarity, continued relevance, and effectiveness in achieving the objectives of the Hardship Assistance Grants program.
- Propose policy and/or objective refinements to the ACOVA for approval.

Management’s Response

NDDVA agrees. NDDVA will review policies and procedures with the ACOVA and Attorney General’s office to ensure clarity, relevance and effectiveness.

Obtain an Effective Information System

The Department of Veterans Affairs utilizes an Access database and Excel spreadsheets to track aspects of the Hardship Assistance Grants program. The Access database is the primary system to track grant applications, grant awards, grant denials, and grant payments. The database has lost functionality over the years and the Department lacks the IT expertise to adequately maintain the database. The Excel spreadsheets are used for reporting on the status of grant awards and tracking available funding for grants. The use of two systems for the program requires dual data entry which is an inefficient use of staff resources. Data inconsistencies also exist between the Access database and Excel spreadsheets which is likely the result of trying to maintain two systems with the same data. These data inconsistencies could have a negative impact on the quality and reliability of information being reported from either system.

According to the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G), management should design the entity's information system to achieve objectives and respond to risks.

Recommendation 5

The State Auditor recommends the Department of Veterans Affairs obtain an effective information system to meet the objectives of the Hardship Assistance Grants program.

Management's Response

NDDVA agrees. NDDVA will obtain cost estimates to include in the Optional Package of our 2019-2021 budget request.

Impact Grants

While working on the objective related to the Hardship Assistance Grants program, concerns related to Impact grants were identified. In this section, those concerns are outlined.

Summary

The North Dakota Veterans Emergency Needs Charitable Fund (also known as the North Dakota Support Our Veterans Fund) was established in April 2010 by the Impact Foundation, a 501(c)(3) nonprofit organization (<https://impactgiveback.org/app/#/charity/235>). The purpose of the fund is to use contributions to support emergency needs of North Dakota veterans and their eligible dependents, including health and healthcare access, economic recovery, homelessness and housing, education and training, and other emergency needs as determined by the fund advisors. The Commissioner of Veterans Affairs is personally listed as a fund advisor in the agreement establishing the fund. Information on the fund's donation web page indicates the program does not replace other programs, rather acts as a supplement to help fill in the gaps left by other program's funding limitations. See Appendix A for information from the Department's web page regarding the Support Our Veterans Fund.

Audit Findings

Use of State Resources

The Department of Veterans Affairs is using state resources for the benefit of the Support Our Veterans Fund and the Impact Foundation without Legislative authorization. State resources are being used to solicit donations for the Support Our Veterans Fund as well as to process applications and payments for Impact Grants from the Support Our Veterans Fund on behalf of the Impact Foundation. Currently, all grant applications and payments to veterans are being processed through the Department for the Support Our Veterans Fund.

According to the Attorney General's office, North Dakota Constitution, Article X, Section 18, provides that the State may not "loan or give its credit or make donations to or in aid of" a non-governmental entity unless authorized by state law. The Commissioner of Veterans Affairs is not authorized by state law to use his work time or state resources for the benefit of the Impact Foundation, including soliciting money for the Impact Foundation, and processing applications for grants from the Impact Foundation.

Expending Private Funds

The Department of Veterans Affairs expended funds received from the Impact Foundation without Legislative or Emergency Commission approval. During our audit period, the Department received \$115,778 from the Impact Foundation and deposited the money in the same fund (410) on ConnectND as the Veterans Postwar Trust Fund. A portion of the funds were used by the Department to cover funding shortfalls in the Hardship Assistance Grants program at the end of

the 2015-17 biennium. The remaining funds were either used to make direct payments for Impact Grants or to reimburse other funding sources that had been used to pay Impact Grants.

The Veterans Postwar Trust Fund has continuing appropriation authority specific to interest earnings received from the principle invested by the State Treasurer. NDCC Section 54-44.1-10 states no payment may be made and no obligation may be incurred against any appropriation unless such payment or obligation has been authorized as provided by law. According to the Attorney General's Office, if the Department of Veterans Affairs receives funds from the Impact Foundation, the funds may be expended only as authorized by the Administrative Committee on Veterans Affairs with the approval of the Emergency Commission in accordance with NDCC Section 37-18-12. While the Administrative Committee on Veterans Affairs may have authorized the use of the funds, the Department could not identify where approval was received from the Legislature or Emergency Commission.

Recommendation 6

The State Auditor recommends the Department of Veterans Affairs use state resources and expend private funds in accordance with state laws.

Management's Response

NDDVA agrees. NDDVA will work with the Attorney General's office, ACOVA, Emergency Commission and Legislators to ensure authorized and approved Public-Private Partnerships are maintained to meet the intention of NDCC 37-18-04 "Do all things necessary and proper to carry out the intent and purposes of NDCC Chapter 37-18."

Highly Rural Transportation Grants Program

This section is for informational purposes only. Opportunities were not identified where the Department of Veterans Affairs could enhance the use of federal funds awarded under the Highly Rural Transportation Grants program for administrative costs.

Summary

The Highly Rural Transportation Grants (HRTG) program is a federal grant program established by the U.S. Department of Veterans Affairs (VA), which went into effect in May 2013. The HRTG program was established to assist Veterans who live in highly rural areas with their transportation needs to and from VA or VA-authorized medical facilities. The grants help state Veterans Service Agencies and Veterans Service Organizations operate or contract for transportation services. Transportation services are provided at no cost to eligible veterans in 36 counties, which are considered highly rural.

The Department of Veterans Affairs' 2017-19 Legislative appropriations changed the funding source from the general fund to federal funds for a portion of salaries and wages of two full-time equivalent (FTE) administrative positions. Our review of testimony from the sixty-fifth Legislative Assembly identified concerns federal funds may not be available to offset the reduction in general funds. It appears the intent was to:

- Reduce the general fund appropriation for the Department's overall budget by \$100,000.
- Eliminate the temporary HRTG coordinator position.
- Use the \$100,000 of federal funds from the temporary HRTG coordinator position to pay a portion of salaries and wages for two FTEs to assume the day-to-day operations of the HRTG program.

The focus of our objective was to determine whether the Department of Veterans Affairs could enhance the use of federal funds awarded under the Highly Rural Transportation Grants Program for administrative costs.

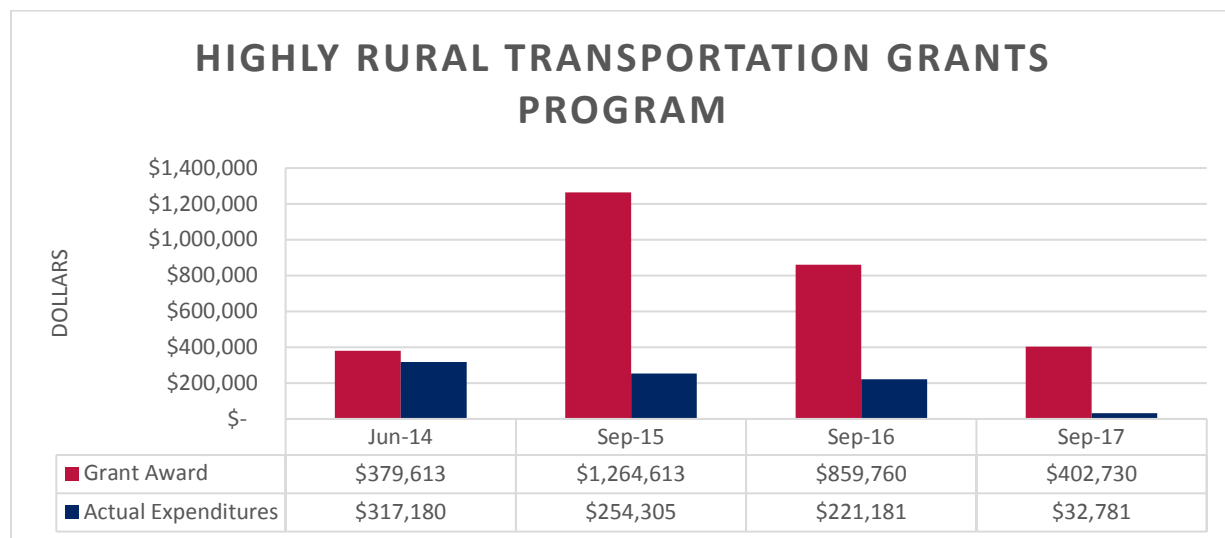
Highly Rural Transportation Grants Program Information

Charging Administrative Costs

The Department of Veterans Affairs' grant applications for the first two years of the program included funding requests primarily for contracted transportation services, transportation vans, van maintenance, and van drivers. The Department of Veterans Affairs did not request any funds for coordination and administrative costs for administering the program until the third grant year. In the third grant year, the Department of Veterans Affairs requested funding for a HRTG coordinator in the amount of \$78,160 or 10% of the HRTG program funding. The purpose of the HRTG coordinator was to coordinate all areas of the program, including establishing new subrecipients, conducting site visits, and preparing necessary reports.

Based on our review of the grant award letter, it appeared the requested funding for the HRTG coordinator was approved by the U.S. Department of Veterans Affairs as part of indirect costs under the 10% De Minimis rate. The 10% De Minimis rate is a federally-recognized rate that non-Federal entities may use to recover allowable indirect costs on grants. Thus, the actual amount of federal funds allowed for administrative costs is limited to 10% of actual direct program costs. For example, if actual end of year program costs totaled \$100,000 then the amount allowed for administrative costs would be 10% or \$10,000. If the final amount of administrative costs charged against the grant exceeds the allowable amount then the federal government may recoup any unallowable amounts.

The following table illustrates the differences between the grant award amounts compared to actual expenditures. The grant award amounts reflect the approved budget amounts for both direct program costs and indirect costs. Actual expenditures reported thru December 31, 2017.



Source: U.S. Department of Veterans Affairs, Grants for Transportation of Veterans in Highly Rural Areas Grant Agreements and Department of Veterans Affairs prepared Federal Financial Reports.

In response to the changes made by the 2017-19 Legislative appropriations, the Department of Veterans Affairs contacted the U.S. Department of Veterans Affairs for guidance. The Department was uncertain how to proceed charging salaries to the grant from July 1, 2017 to the end of the third grant year (September 2017) since the temporary position used for the HRTG Coordinator was eliminated. The Department also requested approval to be able to charge two staff salaries at \$100,000 per biennium to the grant for administrative costs.

The U.S. Department of Veterans Affairs provided the following responses, in part, to the ND Department of Veterans Affairs in a letter dated September 6, 2017:

- *One staff person will be allowed to work on the grant.*
- *Your request to have two staff salaries at \$100,000 per biennium charged to the grant is denied. We will allow one staff salary to be charged to the grant for work performed on the grant at \$36,611.80, which was requested on the grant renewal. The HRT grant dollars*

is based on a yearly budget. In addition, those administrative costs charged to the grant cannot exceed the 10% De Minimis rate.

- *If the one staff person worked on the grant from July 1 through September 14, 2017, I will allow that one staff person's salary to be charged to the current grant based on the work that the staff person performed on the grant. Charging the staff person's salary to the grant for this time period is contingent upon if there is money left from the [10% De Minimis rate].*

The U.S. Department of Veterans Affairs provided further clarification to the ND Department of Veterans Affairs in an email dated October 13, 2017, that the Commissioner and one part-time staff are the only ones allowed to charge salaries to the grant. The Department of Veterans Affairs is charging a portion of the Commissioner's and one staff person's salaries to the grant. Thus, the Department of Veterans Affairs is using federal funds awarded under the Highly Rural Transportation Grants program for administrative costs to the extent allowable.

Appendix A – Department of Veterans Affairs Web

Support Our Veterans Fund

The screenshot shows a web browser window with the URL <https://www.nd.gov/veterans/support-veterans>. The page header includes the North Dakota Department of Veterans Affairs logo and navigation links such as "Contact Us" and "Find a Veterans Service Officer". A search bar is also present. The main content area features a "LATEST NEWS" section with the headline "VA increases pressure on appeals reform" dated April 13, 2016. Below this, the "Support Veterans" section is titled "North Dakota Support Our Veterans Fund". The text explains that the fund was established to provide resources for emergency needs of North Dakota veterans and their eligible dependents. It states that 100% of donations go directly to help veterans, with no administrative fees. A "Show Your Support Please Donate" graphic is displayed on the right. The page provides contact information for the fund, including mailing and text-to-donate options.

North Dakota nd.gov Official Portal for North Dakota State Government North Dakota

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LATEST NEWS VA increases pressure on appeals reform April 13, 2016

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Support Veterans

North Dakota Support Our Veterans Fund

The North Dakota Support our Veterans Fund was established to provide resources for emergency needs of North Dakota veterans and their eligible dependents. Emergency needs of veterans may include but are not limited to dental care, vision, hearing, housing, transportation for medical treatment and other special needs as approved by the Fund Advisors. **100% of donations go directly to help veterans.** No administrative fees, wages, fund expenses are paid with donations. This is due to a collaborative effort by the ND Department of veterans affairs who processes the applications and the Impact Foundation for covering the non-profit expenses.

[Donations can be made online.](#)

- **Or mailed to:**
Support Our Veterans Fund
Impact Foundation
4141 28th Ave. S
Fargo, ND 58104
- **Or text "NDVETS" to 20222** to make a one-time donation of \$10.00. The \$10.00 will be added to your mobile phone bill or deducted from your prepaid balance. Donor must be age 18+ and all donations must be authorized by the account holder (e.g. parents). By texting YES, the user agrees to the terms and conditions. All charges are billed by and payable to your mobile service provider. Service is available on most carriers. Donations are collected for the benefit of the "Support Our Veterans Fund" by the Mobile Giving Foundation and subject to the terms found at www.hnrgl.org. (Message & Data rates may apply. You can unsubscribe at any time by texting STOP to 20222; text HELP to 20222 for help.)

All gifts are tax-deductible! Contact your local [County Veterans Service Officer](#) to apply for support.



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

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