



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

North Dakota Department of Veterans Affairs

Audit Report for the Two-Year Period Ended June 30, 2020

Client Code 321





WHAT WE LOOKED AT AND WHY

North Dakota state law requires our team to identify any errors, internal control weaknesses, or potential violation of law in high-risk or significant functions of the agency.

WHAT WE FOUND



Federal Regulations Not Followed in Grant Agreement

The Department of Veterans Affairs did not follow **federal regulations** regarding the grant agreement with the U.S. Department of Veterans Affairs. Administration **costs of \$3,051** were charged to the grant. In addition, all 16 subrecipient agreements were missing required information.

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HAVE QUESTIONS? ASK US.

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Introduction

North Dakota Department of Veterans Affairs

May 19, 2021

We are pleased to submit this audit of the North Dakota Department of Veterans Affairs for the two-year period ended June 30, 2020. 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. Whenever possible, additional audit objectives are included to increase responsiveness 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 the Department of Veteran Affairs staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

JOSHUA C. GALLION
NORTH DAKOTA STATE AUDITOR

TERMS USED IN REPORT

Appropriation: An amount authorized by the North Dakota Legislative Assembly to be spent for a specific purpose.

Blanket Bond Coverage: Insurance to state agencies for any default or wrongful act on the part of any public employee or public official.

ConnectND: The accounting system for North Dakota.

Emergency Commission: Group of elected officials that have the authority to transfer or expend money appropriated by the North Dakota Legislative Assembly. Additional information can be found in N.D.C.C. Chapter 54-16.

Internal Control: Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

Noncompliance: Failure to act in accordance with a wish or command.

North Dakota Century Code (N.D.C.C.): Collection of all the statutes passed by the North Dakota Legislative Assembly.

Performance Audit: Engagements that provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

Session Laws: Published after each regular and special legislative session and contain the laws enacted during that session.

Subrecipient: A nonfederal entity that receives a subaward from a state agency to carry out part of a federal award.

Audit Results

OBJECTIVE

Are there any errors, internal control weaknesses, or potential violations of law for significant or high-risk functions of the agency?

FINDING
20-01

Federal Regulations Not Followed in Grant Agreement

CONCLUSION

The specific areas of concern our team found were:

- Administration costs totaling \$3,051 were directly charged to the grant. Indirect costs are not allowed to be charged directly to the grant. Those costs should have been charged to the grant by a journal entry.
- All 16 subrecipient agreements we tested were missing required information. If work is allocated to subrecipients, they need to follow the regulations set by the federal government to carry out the intentions of the grant.

These areas of concern were caused by staff oversight.

BACKGROUND

Since 2015, the Department of Veterans Affairs has been awarded an annual grant (called the Highly Rural Transportation Grant) through the U.S. Department of Veterans Affairs. This is a federal grant that appropriates funds to the Department of Veterans Affairs to provide free transportation to medical appointments for North Dakota veterans in rural counties.

Title 2, of the Code of Federal Regulations part 200, section .414, states in part: “administration” is defined as general administration and general expenses such as the director’s office, accounting, and other personnel.

Title 2, of the Code of Federal Regulations part 200, section .332, states in part: ensure that every sub-award is

clearly identified to the sub-recipient as a sub-award and include all the required information.



The North Dakota Department of Veterans Affairs did not follow **federal regulations** from a grant agreement with the U.S. Department of Veterans Affairs.

RECOMMENDATION

We recommend the Department of Veterans Affairs comply with the grant agreement from the U.S. Department of Veterans Affairs and Title 2 of the Code of Federal Regulations part 200.

This includes the following:

- Not charging administration costs directly to the grant and using the appropriate indirect cost rate.
- Updating subrecipient agreements to include required information.

DEPARTMENT OF VETERANS AFFAIRS RESPONSE

Department of Veterans Affairs agrees.

- Each administrative cost was coded by category for 1 month. The following month North Dakota Office of Management and Budget and the U.S. Department of Veterans Affairs advised use of just 1 admin code. The Department of Veterans Affairs maintained a single “Admin” code since then. It did not exceed the 10% admin limit.
- Subrecipient agreements referred some required information to the Highly Rural Transportation Grant (HRTG) with attached copy of the entire grant. The Department of Veterans Affairs will copy the verbiage from the HRTG directly to the subrecipient agreements starting in 2021.

Audit Procedures

INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documents and electronic data records. We planned our audit work to assess the design, implementation, and effectiveness of those internal controls that were significant to our audit objective. Specifically, our work related to internal control included the following components and underlying principles based on guidance issued by the U.S. Government Accountability Office.

COMPONENT: CONTROL ACTIVITIES

Principal: Management should design control activities to achieve objectives and respond to risks.

Principal: Management should design the entity's information system and related control activities to achieve objectives and respond to risks.

Principal: Management should implement control activities through policies.

The specific internal control testing completed for this audit objective is identified below:

- Expenditures were properly approved.
- Non-cash credits and write offs to accounts receivable were properly authorized.
- The Commissioner of Veterans Affairs or an authorized representative signed the promissory note.
- The County Veteran Service Officer reviewed and signed the veterans aid loan.
- Expenditures were properly coded in terms of amount, account, fund, department, and class.

There were no deficiencies identified.

SCOPE

This audit of the Department of Veterans Affairs is for the two-year period ended June 30, 2020.

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

METHODOLOGY

To meet this objective, we:

- Interviewed appropriate Department of Veterans Affairs personnel.
- Observed the Department of Veterans Affairs processes and procedures.
- Queried the ConnectND (PeopleSoft) system for data analysis. Significant evidence was obtained from ConnectND.
- Used non-statistical sampling and the results were projected to the population.
- Performed an analysis and selected a sample of high-risk transactions, including service dogs appropriation, Veterans Aid Loan program, expenditures, and the Highly Rural Transportation Grant for further testing.
- Reviewed compliance with appropriations, adjustments, and related transfers in accordance with limits and purpose. (N.D.C.C. 54-16-03).
- Ensured non-appropriated expenditures received proper legislative approval. (N.D.C.C. 54-44.1-09).
- Reviewed Emergency Commission changes. (N.D.C.C. 54-10-01.1, N.D.C.C. 54-16-03).
- Reviewed blanket bond coverage in accordance with state law and state guidelines. (N.D.C.C. 26.1-21-08, N.D.C.C. 26.1-21-10).

- Selected a random sample of vouchers to ensure that expenditures were made for lawful and official purpose. (N.D.C.C. 44-08-05.1).
- Service dogs to assist North Dakota veterans with post-traumatic stress disorder. (2017 SB 2025 Section 4, 2019 HB 1025 Section 1, 2019 HB1025 Section 3).
- Reviewed the reporting of one-time funding to the Appropriations committee and spent properly for the following amounts: \$7,500 for grant database enhancements, \$140,000 for temporary loan and grant position, \$291,500 Veterans Home Cemetery. (2019 HB 1025 Section 2).
- Selected a random sample of vouchers to ensure Highly Rural Transportation Grant expenditures were administered lawfully within federal regulations. (2 CFR 200).
- Selected a random sample of active loan numbers to ensure the Veterans Aid loan program was adequately administered. (N.D.C.C. 37-14-04-10).
- Ensured repayment requirements are met to the Veterans Aid Fund. (N.D.C.C. 37-14-07).
- Ensured fixed assets are capitalized properly. (N.D.C.C. 54-27-21).
- Ensured investments are legally allowable. (N.D.C.C. 54-27-16).
- Reviewed that documentation of leased asset acquisitions includes written analysis of the decision. (N.D.C.C. 54-27-21.1).

AUTHORITY AND STANDARDS

This biennial 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. 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 objective.

The standards used to evaluate internal control are 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).



Responses to LAFRC Audit Questions

1. WHAT TYPE OF OPINION WAS ISSUED ON THE FINANCIAL STATEMENTS?

Revenues, expenditures and appropriation information was not prepared by the 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 unmodified opinion was issued.

2. WAS THERE COMPLIANCE WITH STATUTES, LAWS, RULES, AND REGULATIONS UNDER WHICH THE AGENCY WAS CREATED AND IS FUNCTIONING?

Other than finding 20-01 in this report, the 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?

Yes. We did not identify any deficiencies in internal control that were significant within the context of our audit objectives.

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?

There were no recommendations included in the prior audit report.

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 revenues, expenditures and appropriation information does not include any significant accounting estimates.

9. IDENTIFY ANY SIGNIFICANT AUDIT ADJUSTMENTS.

An audit adjustment was made for \$234,755 in fiscal year 2019 to reclassify various expenditures related to the Highly Rural Transportation Grant.

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 Capital Management (HCM), Nortridge Loan System, and VetraSpec Claims Management are high-risk information technology systems critical to the Department of Veterans Affairs. None of the exceptions identified in the six audit report questions are directly related to these systems.

Finances

Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2020	JUNE 30, 2019
Federal Revenue	\$ 715,818	\$ 687,172
Loan Principal and Interest	85,258	87,430
Contributions and Private Grants	69,130	46,506
Investment Earnings	2,675	1,462
Total Revenue and Other Sources	\$ 872,881	\$ 822,570

EXPENDITURES AND OTHER USES	JUNE 30, 2020	JUNE 30, 2019
Salaries and Benefits	\$ 597,290	\$ 591,271
Grants Benefits and Claims	785,591	682,636
Rentals/Leases - Building/Land	42,228	39,179
IT-Data Processing	24,432	24,223
Travel	17,721	37,794
Promotional Supplies	15,185	141
Motor Vehicles	13,845	-
Rentals/Leases - Equipment and Other	6,169	5,543
Supplies - IT/Software	4,935	6,255
IT Contractual Services	3,861	3,276
Utilities	3,772	3,922
IT - Communications	3,267	3,316
Professional Development	2,905	2,245
Building, Grounds, Vehicle Supply	1,719	416

Source: ConnectND Financials

Continued on the following page

Finances

Revenues and Expenditures

EXPENDITURES AND OTHER USES	JUNE 30, 2020	JUNE 30, 2019
Office Supplies	\$ 1,696	\$ 1,975
Insurance	1,811	1,670
Operating Fees and Services	906	577
Repairs	816	-
IT Equipment Under \$5,000	684	2,475
Postage	392	2,562
Supply/Material - Professional	205	1,059
Professional Fees and Services	80	5,947
Office Equipment and Furniture Under \$5,000	-	838
Other Equipment Under \$5,000	-	610
Printing	-	464
Total Expenditures and Other Uses	\$ 1,529,510	\$ 1,418,394

Source: ConnectND Financials

Appropriations

For the Year Ended June 30, 2020

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
Expenditures by Line Item			
Transport Vans	\$ 18,800	\$ 13,845	\$ 4,955
Grants-Transportation Program	800,000	580,391	219,609
Vets Affairs Administration	1,350,489	563,004	787,485
Service Dogs	100,000	-	100,000
State Approving Agency	285,658	118,813	166,845
Veterans Home Cemetery	291,500	-	291,500
Totals	\$ 2,846,447	\$ 1,276,053	\$ 1,570,394
Expenses by Source			
General Funds	\$ 1,466,430	\$ 567,170	\$ 899,260
Federal Funds	1,380,017	708,883	\$671,134
Totals	\$ 2,846,447	\$ 1,276,053	\$ 1,570,394

Source: ConnectND Financials

Appropriations

For the Biennium Ended June 30, 2019

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
Expenditures by Line Item			
Grants- Transportation Program	\$ 1,719,520	\$723,755	\$ 995,765
Vets Affairs Administration	1,285,215	1,172,815	112,400
Service Dogs	50,000	-	50,000
State Approving Agency	271,998	222,120	49,878
Totals	\$ 3,326,733	\$ 2,118,690	\$ 1,208,043
Expenditures by Source			
General Funds	\$ 1,155,162	\$ 1,093,826	\$ 61,336
Federal Funds	2,091,571	1,024,864	1,066,707
Special Funds	80,000	-	80,000
Totals	\$ 3,326,733	\$ 2,118,690	\$ 1,128,043

Source: ConnectND Financials



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JOSHUA C. GALLION

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