

North Dakota Department of  
Veterans Affairs  
FARGO, NORTH DAKOTA

**Audit Report**

For the Two-year Period Ended  
June 30, 2012

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*

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June 6, 2013

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, 2012. 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 was the staff auditor and 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, appearing to read "Bob Peterson".

Robert R. Peterson  
State Auditor

# *Executive Summary*

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## *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.

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.

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 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?*

Yes.

### *3. Was internal control adequate and functioning effectively?*

Other than our finding addressing "Bank Reconcilements" (page 9), 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?*

Yes.

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

Yes, a management letter containing one recommendation related to the review of bank deposits was issued and is included on page 12 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.*

None noted.

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.*

None.

9. *Identify any significant audit adjustments.*

None.

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***

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## **Audit Objectives**

The objectives of this audit of the North Dakota Department of Veterans Affairs for the two-year period ended June 30, 2012 were to ensure that the departments have sufficient controls 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, 2012. 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **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 a 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***

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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).

### ***Financial Summary***

For the two-year period June 30, 2012, 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.

Revenues consisted primarily of interest and investment income and loan related revenue. These remained fairly constant for the North Dakota Department of Veterans Affairs, decreasing slightly. Total revenues were \$163,462 for the year ended June 30, 2011 as compared to \$154,662 for the year ended June 30, 2012.

Total expenditures for the North Dakota Department of Veterans Affairs were \$714,150 for the year ended June 30, 2012 as compared to \$801,249 for the prior year. The decrease in total expenditures for fiscal year 2012 reflects primarily grants, benefits, and claims (\$84,000) resulting from a reduction in available Post War Trust Funds. All other expenditures remained fairly constant.

### ***Analysis of Significant Changes in Operations***

None noted.

### ***Analysis of Significant Variances - Budgeted and Actual Expenditures***

None noted.

# Financial Statements

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## Statement of Revenues and Expenditures

<b>Revenues and Other Sources:</b>	<b>June 30, 2012</b>	<b>June 30, 2011</b>
Miscellaneous General Revenue	\$ 131,722	\$ 137,803
Loan Related Revenues	18,304	20,488
Sale of Capital Assets	4,500	5,000
Interest & Investment Earnings	136	65
Program Income		105
<b>Total Revenues and Other Sources</b>	<b>\$ 154,662</b>	<b>\$ 163,462</b>

<b>Expenditures and Other Uses:</b>		
Salaries and Benefits	\$ 364,162	\$ 377,711
Grants, Benefits & Claims	167,728	251,558
Travel	48,458	46,424
Rentals/Leases - Bldg/Land	37,912	29,558
Motor Vehicles	29,000	
Fees - Professional Services	16,674	3,490
IT - Data Processing	13,681	8,198
IT-Communications	8,759	6,858
IT Contractual Services and Repairs	6,092	3,179
Office Supplies	4,559	6,013
Rentals/Leases-Equip & Other	3,750	3,733
Utilities	2,848	2,734
Supplies - IT Software	1,596	4,537
Insurance	1,418	1,110
IT Equip under \$5,000	1,206	10,718
Printing	1,135	711
Supply/Material-Professional	1,003	890
Professional Development	973	2,462
Office Equip & Furniture-Under	883	4,432
Repairs	620	547
Operating Fees and Services	551	3,557
Postage	392	6,495
Bldg, Grounds, Vehicle Supply	360	410
Miscellaneous Supplies	292	10,619
Food and Clothing	96	208
Other Equip under \$5,000		4,522
Equipment Over \$5000		5,570
IT Equipment Over \$5000		5,000
<b>Total Expenditures and Other Uses</b>	<b>\$ 714,150</b>	<b>\$ 801,249</b>

## Statement of Appropriations

### For The Biennium Ended June 30, 2011

Expenditures by Line Item:	Original		Adjusted		Expenditures		Unexpended Appropriations
	Appropriation	Adjustments	Appropriation	FY2010	FY2011		
Technology Project Carryover		\$ 9,350	\$ 9,350	\$ 9,350			
Vets Affairs Administration	\$ 1,031,487		1,031,487	477,453	\$ 546,639		\$ 7,395
<b>Totals</b>	<b>\$ 1,031,487</b>	<b>\$ 9,350</b>	<b>\$ 1,040,837</b>		<b>\$ 1,033,442</b>		<b>\$ 7,395</b>
<b>Expenditures by Source:</b>							
General Fund	\$ 1,031,487	\$ 9,350	\$ 1,040,837		\$ 1,033,442		\$ 7,395
<b>Totals</b>	<b>\$ 1,031,487</b>	<b>\$ 9,350</b>	<b>\$ 1,040,837</b>		<b>\$ 1,033,442</b>		<b>\$ 7,395</b>

### For The Year Ended June 30, 2012

Expenditures by Line Item:	Original		Adjusted		Expenditures		Unexpended Appropriations
	Appropriation	Adjustments	Appropriation	FY2012			
Vets Affairs Administration	\$ 1,417,219		\$ 1,417,219	\$ 641,873			\$ 775,346
<b>Totals</b>	<b>\$ 1,417,219</b>		<b>\$ 1,417,219</b>	<b>\$ 641,873</b>			<b>\$ 775,346</b>
<b>Expenditures by Source:</b>							
General Fund	\$ 1,417,219		\$ 1,417,219	\$ 641,873			\$ 775,346
<b>Totals</b>	<b>\$ 1,417,219</b>		<b>\$ 1,417,219</b>	<b>\$ 641,873</b>			<b>\$ 775,346</b>

#### Appropriation Adjustments:

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 to benefit and serve 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 62<sup>nd</sup> Legislative Assembly appropriated \$210,000 of general funds in House Bill No. 1468 in lieu of income generated from the veterans' postwar trust fund for programs authorized by law to benefit and serve veterans or their dependents. As a result, the North Dakota Department of Veterans Affairs fund had no Post War Trust Fund income expenditures for fiscal year 2012 compared to \$85,413 for fiscal year 2011.

## ***Internal Control***

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In our audit for the two-year period ended June 30, 2012, 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.

The criteria used to evaluate internal control is 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 that internal control was not adequate noting a certain matter involving internal control and its operation that we consider to be a significant deficiency.

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 identified the following significant deficiency in internal control. We noted another matter involving internal control that we have reported to management of the North Dakota Department of Veterans Affairs in a management letter dated June 6, 2013.

### ***Bank Reconcilements (Finding 12-1)***

#### **Condition:**

Bank reconcilements have not been done since October 2011 and have not been reviewed or approved since October 2010.

#### **Criteria:**

Good internal controls require that cash be reconciled at least monthly and material reconciling items be properly supported.

#### **Cause:**

Client did not understand the reconciliation program or formulas that were being used.

**Effect or Potential Effect:**

Without reconciling the book to bank balance, client cannot ensure all funds have been credited or charges debited and as a result there is an increased risk of preventing and detecting financial statement misstatements.

**Recommendation:**

We recommend that bank reconcilements be done monthly, reconciling the bank to the book balances and that these reconcilements be reviewed and approved by the Commissioner. We also recommend that all bank reconcilements be completed for fiscal year 2012.

**North Dakota Department of Veterans Affairs Response/Planned Corrective Action:**

*ND Department of Veterans Affairs agrees with the recommendation. We will reconcile bank statement to book balances monthly and it will be reviewed and approved by Commissioner.*

## *Compliance With Legislative Intent*

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In our audit for the two-year period ended June 30, 2012, we identified and tested the 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).
- 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 (2009 North Dakota Session Laws chapter 35 and 2011 North Dakota Session Laws chapters 7, 25, 256, and 257).
- Compliance with OMB's Procurement 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* require 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 has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

## ***Management Letter (Informal Recommendation)***

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June 6, 2013

Mr. Lonnie Wangen, Commissioner  
North Dakota Department of Veterans Affairs  
4201 38<sup>th</sup> 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 ended June 30, 2012, 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 a condition we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues. We do, however, want to present our recommendation to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if this recommendation has been implemented, and if not, we will reconsider their status.

The following presents our informal recommendation:

### **Deposit Review**

**Condition:**

In our test of receipts, 11 of 25 deposit slips tested were not reviewed and none were reconciled to the remittance listing by an independent person.

**Effect:**

Without an independent verification, there is a greater risk that all funds may not be deposited.

Cause:

Persons approving were unaware of the remittance listing and the deposit slip was not made available for review.

Criteria:

Proper internal controls procedures require proper segregation of duties to minimize the risk of loss or undetected error should provide that an independent person agree the deposit slip to the remittance list.

Recommendation:

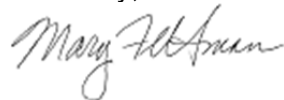
We recommend the deposit slip be agreed to the remittance list by an independent person and that person initial and date the deposit slip to show this review.

North Dakota Department of Veterans Affairs Response/Planned corrective Actions:

*ND Department of Veterans Affairs agrees. We will ensure that the deposits are agreed with the remittance listing by an independent person and initialed.*

I encourage you to call me at 701-239-7290 or an audit manager at 701-239-7289 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Mary Feltman  
Auditor in-charge



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