

North Dakota Department of
Veterans Affairs
FARGO, NORTH DAKOTA

Audit Report

For the Two-year Period Ended
June 30, 2014

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Transmittal Letter

April 29, 2015

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, 2014. 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. Alex Mehring, CPA was the staff auditor and 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,

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

Robert R. Peterson
State Auditor

Executive Summary

Introduction

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

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) requests 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?

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 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 our findings addressing "State Vehicle Use" (page 14) the North Dakota Department of Veterans Affairs was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

3. Was internal control adequate and functioning effectively?

Other than our findings addressing the "Due Diligence" (page 10), and "Misstatement of Loan Receivables" (page 11), 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, the North Dakota Department of Veterans Affairs has implemented all 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.*

Yes, a management letter was issued and is included on page 16 of this report, along with management's response.

LAFRC Audit Communications

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

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

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

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

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

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

None.

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

None.

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

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

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

None.

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

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

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the North Dakota Department of Veterans Affairs for the two-year period ended June 30, 2014 were to provide reliable, audited financial statements and to answer the following questions:

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

Audit Scope

This audit of the North Dakota Department of Veterans Affairs is for the two-year period ended June 30, 2014. 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.

The North Dakota Department of Veterans Affairs' main location is its Fargo office. They also have branch office located in Bismarck. Both locations are included in the audit scope.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed 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

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

For the two-year period June 30, 2014, operations of the North Dakota Department of Veterans Affairs were primarily supported by appropriations from the state's general fund. This was supplemented by loan repayments credited to the agency's operating fund.

Financial Summary

Revenues consisted primarily of interest and investment income and loan related revenue. Miscellaneous General Revenue increased primarily because of fiscal year 2013 deposits from the loan fund not being transferred to the State Treasurer until fiscal year 2014. In State Transfers increased \$250,000, which was a transfer from the general fund for the Veterans Postwar Trust fund pursuant to 13 HB 1439. All other revenues remained fairly constant. Total revenues were \$125,274 for the year ended June 30, 2013 as compared to \$435,719 for the year ended June 30, 2014.

Total expenditures for the North Dakota Department of Veterans Affairs were \$1,154,651 for the year ended June 30, 2014 as compared to \$864,139 for the prior year. The increase in total expenditures for the audit period reflects primarily salaries and wages (\$71,000), grants, benefits, and claims (\$88,000), and transfers out (\$250,000). Salaries and wages increase is from equity and legislative/general increases in May 2013 and July 2013, respectively (which also account for 43% of total expenditures for both years). The grants, benefits, and claims increase is due to the increase in Postwar Trust funds available in fiscal year 2014. Transfers out was to the Postwar Trust fund pursuant to 13 HB 1439. 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

Statement of Revenues and Expenditures

<u>Revenues and Other Sources</u>	June 30, 2014	June 30, 2013
Cash & Investment Earnings	\$ 98	\$ 123
Contributions and Private Grants	10,257	2,500
Leases, Rents and Royalties	4,032	
Miscellaneous General Revenue	147,662	106,992
Loan Related Revenues	9,670	10,159
Sale of Capital Assets	14,000	5,500
In State Transfers	250,000	
Total Revenues and Other Sources	\$ 435,719	\$ 125,274
<u>Expenditures and Other Uses</u>		
Salaries and Benefits	\$ 466,232	\$ 395,586
Travel	44,069	46,811
Supplies - IT Software	6,653	11,943
Supply/Material-Professional	1,473	1,453
Food and Clothing	92	69
Bldg, Grounds, Vehicle Supply	4,185	6,540
Miscellaneous Supplies	791	20,719
Office Supplies	3,945	7,391
Postage	2,839	599
Printing	841	1,351
IT Equip under \$5,000	4,741	15,634
Other Equip under \$5,000		4,806
Office Equip & Furniture-Under		1,407
Utilities	2,718	2,707
Insurance	1,139	1,510
Rentals/Leases-Equip & Other	4,095	3,344
Rentals/Leases - Bldg/Land	39,048	33,140
Repairs	592	580
IT - Data Processing	11,245	10,628
IT-Communications	8,400	8,546
IT Contractual Services and Repairs	14,591	31,827
Professional Development	2,055	3,884
Operating Fees and Services	1,968	344
Fees - Professional Services	117	7,889
Equipment Over \$5000		9,517
Motor Vehicles	15,000	28,500
IT Equipment Over \$5000		27,433
Grants, Benefits & Claims	267,822	179,982
Transfers Out	250,000	
Total Expenditures and Other Uses	\$ 1,154,651	\$ 864,139

Statement of Appropriations

STATEMENT OF APPROPRIATIONS For Fiscal Years 2013 & 2014

For the Biennium Ended 2013

Expenditures by Line Item:	Original		Adjusted		Expenditures		Unexpended Appropriations
	Appropriation	Adjustments	Appropriation	FY2012	FY2013		
Vets Affairs Administration	\$ 1,417,219		\$ 1,417,219	\$ 641,873	\$ 743,055	\$	32,291
Totals	\$ 1,417,219	\$ -	\$ 1,417,219	\$ 641,873	\$ 743,055	\$	32,291
Expenditures by Source:							
General Fund	\$ 1,417,219		\$ 1,417,219	\$ 641,873	\$ 743,055	\$	32,291
Totals	\$ 1,417,219	\$ -	\$ 1,417,219	\$ 641,873	\$ 743,055	\$	32,291

For Fiscal Year 2014

Expenditures by Line Item:	Original		Adjusted		Expenditures		Unexpended Appropriations
	Appropriation	Adjustments	Appropriation	FY2014			
Accrued Leave Payments	\$ 10,123		\$ 10,123	\$ 519		\$	9,604
Technology Project Carryover		\$ 7,933	7,933	7,933			
Transport Vans	30,000		30,000	15,000			15,000
Grant - Agent Orange	50,000		50,000	29,447			20,553
Vets Affairs Administration	1,375,580		1,375,580	613,936			761,644
General Fund Transfers	250,000		250,000	250,000			
Totals	\$ 1,715,703	\$ 7,933	\$ 1,723,636	\$ 916,835		\$	806,801
Expenditures by Source:							

Appropriation Adjustments:

The Technology project carryover adjustment of \$7,933 was prior biennium unspent funds approved by the construction carryover committee pursuant to 54-44.1-11.

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.

Internal Control

In our audit for the two-year period ended June 30, 2014, we identified the following areas of the North Dakota Department of Veterans Affairs' internal control as being the highest risk:

Internal Controls Subjected to Testing:

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

The criteria used to evaluate internal control 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 certain matters involving internal control and its operation that we consider to be significant deficiencies.

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 deficiencies in internal control. We also noted other matters involving internal control that we have reported to management of North Dakota Department of Veterans Affairs in a management letter dated April 29, 2015.

Due Diligence (Finding 14-1)

Condition:

Per review of loan files, it appears that due diligence is not being done consistently. We noted several files where payments have not been made for over a year, late reminders were not sent and they were not turned over to collection. We also noted late fees are not being charged consistently.

Criteria:

NDCC 37-14-17 states that the department may take necessary legal action to collect, compromise or settle loans and that the department may assess and collect a late payment penalty.

Good internal control requires that individual loan receivables be kept up to date to ensure payments are being made.

Cause:

The former account technician responsible for the veterans loan fund did not maintain or keep up to date the individual files.

Effect or Potential Effect:

There is a potential loss of revenue from loan repayment.

Recommendation:

We recommend the North Dakota Department of Veterans Affairs:

- Review the files of all loans listed on the loan receivable trial balance to ensure they are up to date; and
- Perform due diligence to collect outstanding balances of all delinquent loans.

ND Department of Veterans Affairs Response/Planned Corrective Action:

Agree with recommendation. All active loans have been reviewed and brought up to date. All payments were crosschecked with deposits and written receipts to ensure they are correctly posted to accounts. Policy change approved by Administrative Committee on Veterans Affairs to enable late fees be more uniformly applied to loans. Loan Policy #231

All individuals with active loans were contacted either by phone or certified mail as to their loan delinquency. Agreements were reached regarding accrued interest and late fees. It was decided since individuals were not contacted regarding their loan's delinquency or setting up their loan payments, accrued interest and late fees were waived. This determination was based on the decision it was better to start the loan over and receive payments than having the loan go into collection and possibly receiving no payments or drastically reduced payments with a longer payback time. Loans are only available with repayments to the Fund.

Misstatement of Loan Receivables (Finding 14-2)**Condition:**

The loan receivable closing packages were understated by \$23,633 and \$20,063 for fiscal years 2013 and 2014, respectively. Errors were noted for the write-off amounts, new loans, and loan repayments. Also, there was no aging, support, or analysis for the allowance for doubtful accounts.

Criteria:

Management is responsible for accurately reporting all balances and transactions and to do so must maintain adequate controls over financial reporting.

Cause:

The staff member responsible for the loan files and the Nortridge Loan System software left employment at the end of fiscal year 2013, leaving the agency without anyone to operate or maintain the loan system.

Effect or Potential Effect:

Not having accurate reports could possibly lead to fraud within the loan system because errors would not be detected.

Recommendation:

We recommend the North Dakota Department of Veterans Affairs:

- Review files of all loan receivables at fiscal year ending 2014 to ensure the principal balances are correct;
- Once a corrected loan receivable balance is determined for fiscal year ending 2014, ensure 2015 closing packages are accurately reported to OMB and agree to receivable balances; and
- Perform an aging or other analysis for a basis for the allowance for doubtful accounts percentage.

ND Department of Veterans Affairs Response/Planned Corrective Action:

Agree with recommendation. All 2014 loan balances were reviewed for accuracy to ensure a correct June 30, 2014 amount going forward. Closing packages for 2015 will be accurately reported to agree with receivables balance for June 30, 2015. A spreadsheet reconciling monthly transactions has been developed to aid in completing closing packages.

The calculation for the allowance for doubtful accounts percentage will be determined by a standard method going forward.

Compliance With Legislative Intent

In our audit for the two-year period ended June 30, 2014, we identified and tested North Dakota Department of Veterans Affairs' compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- The Veterans Aid Fund is only used for the purpose of making loans, collecting loans, and paying administrative expense related to the making and collection of loans (NDCC 37-14-03.3).
- Loans are limited to \$5,000, with interest rates not exceeding 10% (NDCC 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 (NDCC 37-14-07).
- The Veterans Affairs Subcommittee conducted an annual performance evaluation of the Commissioner. The subcommittee also created and implemented a strategic plan (NDCC 37-18.1-03.5).
- Committee members are reimbursed for travel, meals, and lodging at state rates (NDCC 37-18.1-04).
- Grants were provided to North Dakota veterans who had been exposed to Agent Orange during the Vietnam conflict (13 HB 1405).
- Transfers were properly made to Veterans Postwar Trust fund (13 HB 1439).
- One time funding reports were presented to the Appropriations Committee (11 SB 2007, section 2).
- Proper compliance with legislative lobbying requirements (NDCC 54-05.1).
- Background checks were conducted for new employees (NDCC 12-60-24.29(t)).
- Proper use of a state fleet vehicle (NDCC 39-01-03).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2011 North Dakota Session Laws chapters 7, 25, 256, and 257 and 2013 North Dakota Session Laws chapters 30, 31, 38, and 60).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts, petty cash funds, and proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements, including record-keeping and surplus property.
- Compliance with payroll-related laws, including statutory salaries for applicable elected and appointed positions, and certification of payroll.

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

Government Auditing Standards requires auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are

required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards*. This finding is described below. Other than this finding, we concluded there was compliance with the legislative intent identified above. We also noted a certain inconsequential instance of noncompliance that we have reported to management of the North Dakota Department of Veterans Affairs in a management letter dated April 29, 2015.

State Vehicle Use (Finding 14-3)

Condition:

A mileage log for the Bismarck office state fleet vehicle was not properly maintained. Per review of the mileage log, there was no purpose/reason for travel included on the document, for fiscal year 2014 there was 931 miles that were not accounted for and the information was not submitted timely to the department for submission to State Fleet Services.

Additionally, it appears the employee used the vehicle numerous times for personal use and commuting without proper authorization or approval from the North Dakota Department of Transportation, State Fleet Services.

Criteria:

Pursuant to the State Fleet Policy Manual, General Regulations for Operators, operators must use state vehicles only for conducting state business, and not for personal use. Therefore, commuting is defined as a state employee driving a state vehicle to and from his or her residence and place of employment. This practice is considered using a state vehicle for personal use, which is a violation of state law. Vehicles should not be taken to personal residences for overnight parking (NDCC 39-01-03).

If commuting has been approved, agencies must comply with IRS publication 15-B to apply possible fringe benefits.

State agencies/institutions with responsibilities requiring 24-hour response to emergencies may commute upon written request and approval by State Fleet Services (see SFN 19525).

If approved is received and you wish to garage a state vehicle at your home, complete the Authorization and Waiver to Garage a State Fleet Vehicle at Employee's Home (see SFN 58652).

Cause:

There is a lack of oversight by the Department.

Effect or Potential Effect:

There is a possible abuse of state resources.

Recommendation:

We recommend the North Dakota Department of Veterans Affairs:

- Ensure that the Bismarck office submit a complete and timely vehicle log report;
- Ensure all vehicle logs are approved by the Commissioner;
- Receive authorization and approval from the Department of Transportation for commuting and personal use of state vehicle.

ND Department of Veterans Affairs Response/Planned Corrective Action:

Agree with recommendation. Bismarck office will submit vehicle log reports on a monthly basis for accurate budget reporting.

All employees will be required to submit a completed SFN 18709 Travel Request - to Supervisor for approval. Once travel is concluded a Car Request/Report form will be completed showing dates, destination, reason or purpose and total mileage of state fleet vehicle, if used.

There will be no request to the Department of Transportation to use a department state fleet vehicle for commuting or personal use. These purposes are not authorized by the Commissioner.

Management Letter (Informal Recommendations)

April 29, 2015

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

Dear Mr. Wangen:

We have performed an audit of the North Dakota Department of Veterans Affairs for the two year period ended June 30, 2014, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Department of Veterans Affairs' internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

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

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations:

Inadequate Segregation of Duties Surrounding Revenue

Condition:

The North Dakota Department of Veterans Affairs does not have adequate segregation of duties surrounding the revenue recognition process.

Criteria:

The Committee of Sponsoring Organizations of the Treadway Commission's publication Internal Control - Integrated Framework states in part: Management should consider whether duties are segregated to reduce the risk of error or inappropriate or fraudulent actions. Segregation of duties generally entails dividing the responsibility for recording, authorizing, approving transactions, and handling the related asset. In instances where it is impractical or not feasible to segregate duties, management should institute alternative control activities.

Effect:

Inadequate segregation of duties results in an increased risk of misstatement whether due to fraud or error.

Cause:

The North Dakota Department of Veterans Affairs is a smaller agency with limited resources.

Informal Recommendation 14-1:

We recommend the North Dakota Department of Veterans Affairs segregate duties between receiving revenue and the recording of that revenue into PeopleSoft and the Nortridge Loan System.

ND Department of Veterans Affairs Response/Planned Corrective Action:

We disagree with recommendation. The Department has a small office staff and we have already segregated the duties to the best of our abilities. The majority of payments are done through ACH transfer. Due to the low amount of payments (no cash allowed) received by mail or walk-in, we do not feel that it would be prudent for everyone to have access to recording revenue into PeopleSoft and/or the Nortridge Loan System. This is what would be needed to insure the recommendation is met. At any given time, there is a limited amount of staff in the office simply due to business appointments and/or personal time off. This is and always will be an ongoing issue with such a small department staff.

Purchase Card Approvals

Condition:

We noted the Commissioner's purchase card expenditures are not properly approved.

Criteria:

OMB Policy 300 - Purchasing Card - states that the supervisor should sign the cardholder's statement certifying that the purchases were made for the use of state business and appropriate rules and regulations were followed.

Effect:

Improper approval of purchase card expenditures could lead to expenditures that are not in compliance with the OMB Purchase Card Policy 300 and/or expenditures being made that are not business related.

Cause:

Since the Commissioner approves all documents for the Department, the approval aspect was overlooked.

Informal Recommendation 14-2:

We recommend the Veterans Affairs Subcommittee Chairman or the ACOVA Chairman review and document approval of the Commissioner's monthly purchase card expenditures.

ND Department of Veterans Affairs Response/Planned Corrective Action:

Agree. The Commissioner will present his monthly purchase card expenditures to the Veterans Affairs Subcommittee chairman for review and document approval at the regularly scheduled meetings.

Inadequate Bidding Documentation

Condition:

The North Dakota Department of Veterans Affairs purchased a therapy unit software package for the North Dakota Veterans Home. The purchase was for \$27,433 and did not have adequate bidding documentation.

Criteria:

North Dakota State Procurement Manual policy 6.1 states in part: Purchases \$2,500.01 to \$25,000 solicit no fewer than three vendors, insofar as practical, to submit oral or written informal bids or proposals. Purchases over \$25,000 solicit formal sealed bids or proposals with notice to approved bidders on the State Bidders List and post on the State Procurement Online web site.

North Dakota State Procurement Manual policy 6.2 states in part: Procurement is noncompetitive when there is no bidding process. Limited competition occurs when competition is possible, but the requirements of the solicitation restrict competition to particular bidders. (Ref. N.D.C.C. § 54-44.4-05, N.D.A.C. § 4-12-09). Obtain prior approval of all limited competitive or noncompetitive purchases over \$2,500 using the Alternate Procurement Request form, SFN 51403.

Effect:

Overpayment for the same or similar product could occur when the competitive bidding process is circumvented.

Cause:

Multiple agencies were involved that caused confusion over who was to bid out the purchase.

Recommendation:

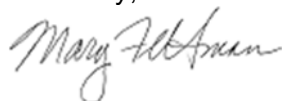
We recommend the North Dakota Department of Veterans Affairs receive and maintain adequate bidding or sole source purchase documentation for all purchases requiring formal and/or informal bids.

ND Department of Veterans Affairs Response/Planned Corrective Action:

We agree with the recommendation to an extent. When the Administrative Committee on Veterans Affairs (ACOVA) obligates Postwar Trust Fund (PWTF) monies for purchases such as the Veterans Home requested, it in turn directs the Department to pay for that purchase. While the Department follows the State's procurement procedures, we have no authority to compel other agencies/entities to do the same. Therefore, the Department will recommend to the ACOVA any future motions that expend PWTF dollars to other state agencies/entities include a phrase that makes reference to "following the State's procurement policies and procedures and provide such documentation to the Department before payment is made."

I encourage you to call me at 701-239-7290 or an audit manager at 701-239-7291 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Mary Feltman, CPA
Auditor in-charge

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or by contacting the
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