

## EXECUTIVE DIGEST

# USE OF STATE GRANT FUNDS BY VETERANS SERVICE ORGANIZATIONS

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### INTRODUCTION

This report, issued in August 2001, contains the results of our performance audit\* of the Use of State Grant Funds by Veterans Service Organizations (VSOs), Veterans Affairs Directorate, Department of Military and Veterans Affairs.

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### AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness\* and efficiency\*.

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### BACKGROUND

The 11 VSOs subject to our audit provide varying types of services to the veteran\* community, including representation on legislative matters affecting veterans, financial assistance, job placement assistance, educational assistance and training, community service, and youth activities. The primary function, shared by all VSOs, is to provide assistance to veterans (including their surviving spouses and dependents) in obtaining entitled benefits, primarily from the United States Department of Veterans Affairs.

The State, through the Department, provides grant funds annually, principally to the 11 VSOs. The requirements for

the use of these State grant funds are contained in the Department's annual appropriations act. These requirements stipulate that State grant funds shall be used only for the salaries, wages, related personnel costs, training, and equipment for accredited veteran service advocacy officers\* and necessary support and managerial staff.

During fiscal year 1998-99, the VSOs employed 75.5 employees centrally in Detroit and an additional 34.5 located throughout the State. Of the 75.5 employees in Detroit, 40 were veteran service advocacy officers and 35.5 were clerical and support staff. The 34.5 employees located throughout the State were also veteran service advocacy officers, located at the discretion of the individual VSOs.

State grant funds provided to the 11 VSOs exceeded \$3.8 million for fiscal year 2000-01.

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**AUDIT OBJECTIVES  
AND CONCLUSIONS**

**Audit Objective:** To determine what processes are in place to ensure that the VSOs are providing effective services to the veterans of the State of Michigan.

**Conclusion:** We concluded that there are minimal processes in place to ensure that VSOs are providing effective services to the veterans of the State of Michigan. Our assessment disclosed a reportable condition\* regarding the oversight of State grant funds (Finding 1).

**Audit Objective:** To determine if the VSOs are expending the State grant funds for the purposes stated in the appropriations acts.

**Conclusion:** We concluded that the VSOs generally expended State grant funds for the purposes stated in the appropriations acts. However, our assessment disclosed two reportable conditions regarding limits on grant funds expenditures and financial accounting and reporting requirements (Findings 2 and 3).

**Audit Objective:** To determine if controls over the development and reporting of service-related information are in place to ensure that the information is accurate and reliable.

**Conclusion:** We concluded that controls over the development and reporting of service-related information did not ensure that the information was accurate and reliable. As a result, this information may not accurately reflect an individual VSO's provision of services to the veteran community in the State of Michigan. In addition, our assessment disclosed reportable conditions regarding controls over service-related information reporting, methodology for recovery computation, and the development of performance standards\* and alternative performance indicators\* (Findings 4 through 6).

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**AUDIT SCOPE AND  
METHODOLOGY**

Our audit scope was to examine the records of the Veterans Affairs Directorate and selected veterans service organizations regarding the use of State grant funds. Our examination included a review of the VSOs' reported recoveries\* and activities, financial records, expenditure data, and other records at 8 of the 11 VSOs subject to our audit. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing

procedures as we considered necessary in the circumstances.

Our audit procedures included an examination of Directorate and VSO records primarily covering fiscal years 1996-97 through 1998-99.

To accomplish our first objective, we identified the program requirements placed upon the Department, the Directorate, the Michigan Veterans Organizations' Rehabilitation and Veterans Service Committee, and the VSOs in the Department's annual appropriations acts. We interviewed Directorate staff to gain an understanding of their role in the oversight of these State grant funds. We obtained expenditure data from the United States Department of Veterans Affairs to determine how Michigan ranked in comparison with other states in providing similar services to their veteran communities. Also, we contacted other states to gain an understanding of how their delivery systems of services to their veteran communities differed from that of Michigan.

To accomplish our second objective, we reviewed budget requests, financial statements, Internal Revenue Service form 990's\*, and other financial information for the 11 VSOs. We identified the financial reporting requirements in the annual appropriations acts and determined the VSOs' compliance with these requirements. We interviewed Directorate and VSO staff to gain an understanding of the uses of the State grant funds at each VSO. We reviewed specific grant funds expenditures for 8 of the 11 VSOs during fiscal years 1997-98 and 1998-99 to determine their appropriateness and allowability.

To accomplish our third objective, we identified the service-related reporting requirements in the annual appropriations acts and determined the VSOs' compliance with these requirements. We interviewed the service directors at each VSO to gain an understanding of the processes used to accumulate the service-related information. We also interviewed VSO staff directly involved with the accumulation, computation, and reporting of service-related information. We reviewed specific VSO recovery computations in selected categories for fiscal year 1998-99. We analyzed the required methodology given to the VSOs by the Michigan Veterans Organizations' Rehabilitation and Veterans Service Committee to compute recovery amounts. Also, we determined the VSOs' compliance with the required methodology and assessed the adequacy of the methodology in measuring the VSOs' effectiveness. In addition, we identified revisions to the methodology to simplify the recovery computations and minimize computation errors.

We contacted other states operating similar programs to determine how they provided services to their veteran communities, including the identification of performance indicators and standards used that had applicability to the State of Michigan's grant program.

We did not conduct specific testing of expenditures and recovery computations for the Jewish War Veterans, Polish Legion of American Veterans, or Catholic War Veterans because of their limited State grant funds award amounts and reported recoveries and activities.

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**AGENCY RESPONSES**

Our audit report includes 6 findings and 6 corresponding recommendations. The Department's preliminary response indicated that it agrees with our recommendations.