



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

October 24, 2013

The Honorable Chester Crandell, Chair
Joint Legislative Audit Committee

The Honorable John Allen, Vice Chair
Joint Legislative Audit Committee

Dear Senator Crandell and Representative Allen:

Our Office has recently completed a 24-month followup of the Arizona Department of Veterans' Services—Veterans' Donations and Military Family Relief Funds regarding the implementation status of the 25 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2011 (Auditor General Report No. 11-09). As the attached grid indicates:

- 20 have been implemented;
- 1 is in the process of being implemented;
- 3 legislative recommendations have not been implemented; and
- 1 is not applicable.

Unless otherwise directed by the Joint Legislative Audit Committee, this concludes our follow-up work on the Department's efforts to implement the recommendations from the September 2011 performance audit report.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:ss
Attachment

cc: Ted Vogt, Director
Arizona Department of Veterans' Services

Mr. Randy Meyer, Chair
Military Family Relief Fund Advisory Committee

Arizona Department of Veterans' Services—Veterans' Donations and Military Family Relief Funds

Auditor General Report No. 11-09

24-Month Follow-Up Report

Recommendation

Status/Additional Explanation

Finding 1: Additional actions needed to improve Veterans' Donations Fund administration

1.1 Although existing statutes require the Department to comply with procurement and grant solicitation and award requirements regarding Veterans' Donations Fund expenditures, the Legislature should consider strengthening the existing statutory requirements to further clarify the Department's use of donations fund monies. The Legislature should consider the following two alternatives:

a. Modifying the donations fund statute in A.R.S. §41-608 to explicitly authorize the use of donations fund monies to provide grants to nonprofit organizations in compliance with grant solicitation and award statutes; or

b. Specifying that the Department should use donations fund monies itself to directly benefit veterans through its own programs, and thus prohibit the use of monies for grants to nonprofit organizations.

Implemented at 6 months

In March 2012, the Legislature passed Laws 2012, Ch. 151, which revised statute to specify that the donations fund monies may be used for the benefit of veterans in this State as grants. This authorization is subject to Title 41, Ch. 24, which contains the grant solicitation and award statutes.

For grants under \$5,000, the law requires the Department to adopt rules or policies that encourage as much competition as practicable. If the Department adopts such rules or policies, the law exempts donations fund grants under \$5,000 from the grant solicitation and award statutes.

Not applicable

The Legislature decided to implement the alternative recommendation. See explanation for 1.1a.

1.2 To better ensure that donations fund monies are used appropriately, the Legislature should also consider revising statute to add more restrictive requirements to the donations fund. These additional revisions include:

a. Eliminating the language that states that expenditures are to be made "at the discretion of the director";

b. Specifying what fund monies may and may not be used for;

Implemented at 6 months

Laws 2012, Ch. 151, revised statute to eliminate the language that states that expenditures are to be made "at the discretion of the director." See explanation for 1.1a.

Not implemented

The statutory changes enacted in Laws 2012, Ch. 151, did not include language specifying what donations fund monies may or may not be used for. See explanation for 1.1a.

Recommendation**Status/Additional Explanation**

c. Requiring that the Arizona Veterans' Service Advisory Commission or some other external body review and approve expenditures from the donations fund; and

Not implemented

The statutory changes enacted in Laws 2012, Ch. 151, did not include a requirement for additional review or approval of expenditures from the donations fund by an external body. See explanation for 1.1a.

d. Requiring an annual reporting requirement by the director to the Arizona Veterans' Service Advisory Commission, the Governor, or another external body that includes a detailed listing of expenditures from the fund.

Not implemented

The statutory changes enacted in Laws 2012, Ch. 151, did not include an annual reporting requirement to an external body. See explanation for 1.1a.

1.3 Unless the Legislature amends statute to require it to spend donations fund monies directly instead of giving it to other organizations, the Department should develop and implement a formal grant process and develop policies and procedures that comply with A.R.S. §§41-2701 through 41-2706 that govern grant solicitation and award. The process should be followed for all donations fund expenditures except for purchases of goods and services and should encompass all statutory requirements for grant solicitation and award. Including:

Implemented at 24 months

a. Issuing a request for grant applications that includes:

Implemented at 24 months

- A description of the nature of the grant project, including the funding source and total amount of available monies;
- The criteria or factors under which applications will be evaluated and the relative importance of each criteria or factor; and
- The due date for submittal of applications and the anticipated time the awards may be made.

b. Public notice of the request for grant applications at least 6 weeks before the application due date, and public receipt of grant applications at the time and place designated in the request;

Implemented at 24 months

c. Review of the applications by at least three evaluators, based solely on the evaluation criteria or factors set forth in the request for grant applications, and a written record of the assessment of each application; and

Implemented at 24 months

Recommendation

Status/Additional Explanation

- d. Evaluators' recommendations to the director, who may affirm, modify, or reject the recommendations, and a written record of the justification for the director's actions if he/she does not affirm the evaluators' recommendations.

Implemented at 24 months

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- 1.4 To help ensure that donations fund monies are spent appropriately, the Department should:

- a. Require recipients to provide a report on how money provided from the donations fund was actually used, including providing supporting documentation such as receipts and invoices, and communicate to applicants that misuse of monies or failure to provide this information will cause any future requests to be denied, and

Implemented at 24 months

- b. Require applicants for donations fund monies to sign the application or donations fund request form that provides a sworn statement certifying that the funds will be used for the requested purpose.

Implemented at 24 months

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- 1.5 Consistent with the recommendations in the 2009 report, the Department should:

- a. Limit donations fund expenditures to only those requests that benefit Arizona veterans, and

Implemented at 24 months

In fiscal year 2013, the Department spent more than \$2.1 million from the Donations Fund. Specifically, the Department distributed approximately \$853,000 in aid to nongovernment organizations, such as nonprofit organizations that aid veterans throughout the State. The Department also used \$800,000 of the total for payroll at its two Veterans Homes and transferred \$300,000 to the Veterans' Cemetery Fund. The Department used the remaining amount of approximately \$206,000 for cemetery expansion expenditures and other department and veterans homes operating expenditures.

- b. Seek and document legal advice prior to making expenditures of \$5,000 or more to ensure the Department's compliance with applicable state laws, regulations, and executive orders.

Implemented at 24 months

Recommendation**Status/Additional Explanation****Finding 2: Military Family Relief Fund has assisted numerous families, but additional criteria needed to better guide award decisions**

2.1 The Committee should establish additional award criteria to prevent inconsistent recommendations, but allow for exceptions upon written explanation of reasoning. These criteria should specify:	Implemented at 24 months
a. Factors that will be considered during the decision-making process;	Implemented at 6 months
b. Expenses that are and are not eligible for award; and	Implemented at 6 months
c. Documentation applicants should submit to support financial assistance requested in the application.	
2.2 The Committee should document the reasons for its recommendations, including how the recommendations are based on the established criteria, and provide these reasons to the director as part of its recommendations for approving, partially approving, or denying applications.	Implemented at 24 months
2.3 The Department should develop and implement a process to inform applicants in writing of the reasons for decisions regarding their applications.	Implemented at 24 months
2.4 The Department should improve its appeals process by:	
a. Modifying its proposed rules to conform with A.R.S. §41-2704 and clearly explain the process; and	Implementation in process Although the Department has not yet updated its rules because of the Governor's rule-making moratorium, it has developed and implemented a written appeals process that conforms with A.R.S. §41-2704. According to the Department, it does not plan to revise its rules until at least December 2014, when the rule-making moratorium expires.
b. Developing and implementing a process for informing applicants in writing that they have this option.	Implemented at 6 months

Recommendation**Status/Additional Explanation**

2.5 To comply with A.R.S. §41-2705 and avoid real or perceived bias in committee recommendations:

a. The Department should develop a statement for committee members to sign prior to considering applications, indicating that they have no undisclosed interest in the decision and no undisclosed contact with applicants while the application is under consideration; and

Implemented at 6 months

b. The Committee should consider adopting a practice of discussing any relationships with applicants at the beginning of each meeting and reminding members that they can recuse themselves from decisions when appropriate.

Implemented at 6 months

2.6 The Department should request that its assistant attorney general regularly attend committee meetings to help ensure compliance with statutory requirements.

Implemented at 6 months