



## REPORT HIGHLIGHTS PERFORMANCE AUDIT

### Our Conclusion

The Arizona Department of Veterans' Services (Department) administers the Veterans' Donations Fund (donations fund) and Military Family Relief Fund (family relief fund). Although the current director has implemented a process to avoid the past misuses of the donations fund, this audit identified uses of donations fund monies that did not benefit Arizona veterans, and some donations fund expenditures did not follow applicable state statutes. Additionally, the Military Family Relief Fund Advisory Committee, which reviews applications for family relief fund assistance and makes award recommendations to the department director, should establish additional criteria for recommending awards from this fund to avoid inconsistent award recommendations.



2011

## Additional actions needed to improve donations fund administration

The Department administers the donations fund, which, according to statute, is meant to benefit Arizona veterans. From fiscal years 2009 through 2011, the donations fund received between \$1.3 million and \$1.6 million annually, with expenditures of more than \$760,000 to more than \$1 million.

The former director, who was indicted by the Attorney General in November 2009, misused the donations fund for gifts and unauthorized expenditures and also failed to follow the procurement code. The Office of the Auditor General's November 2009 report on the former director recommended that the Department appropriately use the donations fund monies, confer with its attorney regarding significant expenditures, and follow the procurement code.

In December 2009, the Department's current director implemented a new process for the use of the donations fund, which requires:

- Applicants to make written requests;
- A committee and the deputy director to review applications and make recommendations to the director; and
- The director to make the final decision regarding donations fund expenditures, including making decisions without committee action. However, in such cases, the deputy director is to provide a written explanation.

**Department spent some donations fund monies that did not benefit Arizona veterans—**The majority of the donations fund expenditures we reviewed benefited Arizona veterans. However, other expendi-

tures did not benefit Arizona veterans, such as paying for investigation and disciplinary costs for the Department's fiduciary program, providing benefits to veterans outside Arizona, and paying the administrative and fund-raising costs of nonprofit veterans' organizations.

### **Department also did not follow Arizona statutes regarding expenditure of public monies and its own procedures—**

Arizona statutes establish requirements for the expenditure of public monies to obtain best value and ensure fair competition. These statutes relate to the procurement of goods and services and grant solicitation and award. However, for the expenditures we reviewed involving distributing donations fund monies to various organizations, the Department did not follow applicable grant laws, such as issuing a request for grant applications that described the nature of the grant, the evaluation criteria, and the criteria's relative importance.

For some expenditures we reviewed, the Department also did not follow its new procedures.

**Legislature may want to consider limiting the donations fund's use—**The Legislature may want to consider revising statute to explicitly authorize the Department to issue grants in compliance with grant award statutes. Alternatively, the Legislature may wish to restrict the use of the donations fund to benefiting Arizona veterans through department programs. Under such a scenario, the Department would provide services and goods to veterans through its own programs, such as the Veteran Home.

**Department should further strengthen its policies**—If the Department continues to grant donations fund monies, it should establish a formal grant process consistent with applicable statutes. It should also require each grant recipient to report how grant monies were used.

**Recommendations:**

The Legislature may want to consider specifying that the Department comply with grant solicitation and award statutes or that it use the donations

fund monies to benefit Arizona veterans through its programs.

The Department should:

- Establish a formal grant process, unless the Legislature requires the Department to spend donations fund monies through its own programs to benefit Arizona veterans.
- Require grant recipients to report how grant monies were used.

## Military Family Relief Fund Advisory Committee should establish additional award criteria

The Military Family Relief Fund provides financial assistance to military service members, veterans, and their families. The Military Family Relief Fund Advisory Committee (Committee) receives applications for assistance, reviews them, and makes recommendations to the director. From July 2008 through January 2011, the family relief fund financially assisted 79 veterans and/or their families. Awards ranged from about \$200 to \$20,000—the maximum amount allowed by statute.

**Committee's recommendations inconsistent**—In August 2010, the Committee recommended approval to pay for an applicant's student loans and credit card balance. However, in December 2010, one applicant was denied assistance for a student loan bill, and another applicant was denied assistance for credit card bills.

Similarly, the Committee recommended approval for grocery assistance for one applicant, but then recommended denying grocery assistance for another applicant.

**Poor documentation**—The Department's files lacked documentation to confirm eligibility and support award amounts in 8 of the 14 approved case files auditors reviewed.

**Additional award criteria needed**—Other states have more specific guidelines for making assistance awards. For example, Maine's guidelines cover the degree of financial hardship, the connection between the hardship and military service, and the documentation required. The guidelines also cover the types of expenses that can be paid, such

as food, medical, or emergency vehicle repairs, and those expenses that cannot be paid, such as legal fees, bad checks, or credit card bills. The guidelines the Committee develops should also allow for exceptions.

**Procedural changes also needed**—The Committee and Department need to better communicate the reasons for approving or denying an application. There also needs to be a process for notifying an applicant in writing about a decision to grant or deny an application. In connection with the denial, the Department needs to notify an applicant of the right to appeal and the appeals process.

Committee members sometimes know the applicants and should comply with statute by identifying any interest or contact with the applicant. The Committee has also conducted business in the absence of a quorum. To help with these issues, the Department should request that its assistant attorney general regularly attend committee meetings.

**Recommendations**

The Department and Committee should:

- Establish additional award criteria.
- Document the reasons for its recommendations.
- Improve its appeals process.
- Comply with statute to avoid real or perceived bias.
- Request that its assistant attorney general regularly attend committee meetings.