



A REPORT
TO THE
ARIZONA LEGISLATURE

Performance Audit Division

Performance Audit

Arizona Department of Veterans' Services—

Veterans' Donations and
Military Family Relief Funds

September • 2011
REPORT NO. 11-09



Debra K. Davenport
Auditor General

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September 27, 2011

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Col. Joey Strickland, Director
Arizona Department of Veterans' Services

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

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Arizona Department of Veterans' Services—Veterans' Donations and Military Family Relief Funds*. This report is in response to a November 3, 2009, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Arizona Department of Veterans' Services agrees with some of the findings and plans to implement or implement in a different manner all but two of the recommendations directed to it. Although the Military Family Relief Fund Advisory Committee disagrees with one of the findings, it plans to implement all of the recommendations directed to it.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on September 28, 2011.

Sincerely,

Debbie Davenport
Auditor General

Attachment

cc: Military Family Relief Fund Advisory Committee Members



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.

TABLE OF CONTENTS



Introduction	1
Finding 1: Additional actions needed to improve Veterans' Donations Fund administration	5
Prior investigation found improper expenditures	5
Department established donations fund administration procedures	6
Most donations fund expenditures reviewed benefited Arizona veterans, but some did not, and Department did not follow applicable requirements for most expenditures	7
Legislature should consider strengthening existing statutory controls	12
Legislature should consider placing additional controls on the donations fund	12
Department should strengthen its policies and procedures for distributing donations fund monies	14
Recommendations	15
Finding 2: Military Family Relief Fund has assisted numerous families, but additional criteria needed to better guide award decisions	19
Family relief fund assists veterans and their families	19
Committee made some inconsistent award recommendations and did not obtain sufficient evidence to support all awards	21

• continued



TABLE OF CONTENTS

Committee should establish additional criteria for awards	23
Procedural changes also needed	25
Recommendations	27
Appendix A: Methodology	a-i
Agency Response	
Auditor General Reply to Agency Response	b-i
Tables	
1 Veterans' Donations Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance Fiscal Years 2009 through 2011 (Unaudited)	2
2 Military Family Relief Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance Fiscal Years 2009 through 2011 (Unaudited)	3
3 Department Compliance with New Review Process for Donations Fund Expenditures December 1, 2009 through June 30, 2010	11
4 Assistance Provided by Military Family Relief Fund September 1, 2010 through January 31, 2011 (Unaudited)	20

concluded •

INTRODUCTION

Scope and Objectives

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Veterans' Services (Department) administration of the Veterans' Donations Fund and Military Family Relief Fund, pursuant to a November 3, 2009, resolution of the Joint Legislative Audit Committee. This is the third in a series of four reports to be issued as part of the sunset review of the Department and the Arizona Veterans' Service Advisory Commission (Commission) and was conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq. This audit addresses improvements needed in the Department's administration of both funds and recommends potential statutory changes for the Veterans' Donations Fund. The first two reports focused on the Department's fiduciary program and the Veteran Home, and the last report will address the statutory sunset factors for the Department and the Commission.

Department administers two funds to help veterans and their families

Veterans' Donations Fund

Established under A.R.S. §41-608, the Veterans' Donations Fund (donations fund) consists of monies, gifts, and contributions donated to the Department, as well as proceeds from the sale of specialty motor vehicle registrations such as Veterans' Military Support, Former Prisoner of War, Purple Heart, and Pearl Harbor Survivor license plates. According to statute, the monies in the donations fund may be used at the discretion of the Department's director for the benefit of veterans within the State of Arizona.

As shown in Table 1 (see page 2), the donations fund has received annual revenues ranging between approximately \$1.3 million to \$1.6 million in fiscal years 2009 through 2011. Most of these revenues came from specialized license plate fees with additional revenues from other donations. Expenditures from the donations fund have ranged from more than \$760,000 to more than \$1 million annually. Although the Department spent approximately \$718,400 and \$130,500 of donations fund monies on the Veteran Home in fiscal years 2009 and 2010, respectively, to help support Veteran Home operations, most of the donations fund monies that the Department spent in fiscal years 2010 and 2011 were distributed to outside organizations.¹ The donations fund's fund balance totaled more than \$2.5 million as of June 30, 2011.

Military Family Relief Fund

A.R.S. §41-608.04 established the Military Family Relief Fund (family relief fund), which receives revenues from donations, including private tax-credit-eligible donations, grants, and bequests.² The family relief fund was established on September 19, 2007, and is set to expire on December 31, 2018, at which time any remaining monies will be transferred to the donations fund. Statute also established the Military Family Relief Fund Advisory Committee (Committee) to determine appropriate uses of the monies in the family relief fund. The Committee consists of the department director and 12 governor-

¹ See the Office of the Auditor General's performance audit of the Veteran Home (Report No. 11-06) for additional information on donations fund expenditures for the Veteran Home.

² The donors of the first \$1 million donated to the family relief fund each calendar year are eligible for Arizona income tax credits of up to \$200 for single individuals or heads of household and up to \$400 for married couples filing joint returns.

**Table 1: Veterans' Donations Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Years 2009 through 2011
(Unaudited)**

	2009	2010	2011
Revenues:			
Specialized license plates	\$ 1,004,956	\$ 1,101,684	\$ 1,241,055
Donations	469,227	180,159	265,559
Intergovernmental			75,000
Other	20,655	32,421	8,635
Total revenues	<u>1,494,838</u>	<u>1,314,264</u>	<u>1,590,249</u>
Expenditures:			
Personal services and related benefits	247,180		
Professional and outside services	395,338	53,798	68,543
Travel	19,793	7,945	7,395
Food	14,476	6,595	4,272
Aid to organizations and individuals	76,745	608,887	580,411
Other operating	214,851	120,511	84,397
Equipment	67,477	109,973	16,339
Total expenditures	<u>1,035,860</u>	<u>907,709</u>	<u>761,357</u>
Net change in fund balance	458,978	406,555	828,892
Fund balance, beginning of year	807,136	1,266,114	1,672,669
Fund balance, end of year	<u>\$ 1,266,114</u>	<u>\$ 1,672,669</u>	<u>\$ 2,501,561</u>

Source Auditor General staff analysis of the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* and the AFIS Management Information System *Status of General Ledger-Trial Balance* screen for fiscal years 2009 through 2011.

appointed volunteer members. The family relief fund is administered by the Department for the statutory purpose of assisting military service members, veterans, and their family members.

As shown in Table 2 (see page 3), the family relief fund received approximately \$1.08 million, \$1.01 million, and \$1.02 million annually in donations in fiscal years 2009, 2010, and 2011, respectively. Although the family relief fund also received approximately \$15,000 annually in interest in both fiscal years 2010 and 2011, donations represent the largest revenue source for this fund. The Department has been slow to spend monies from the family relief fund. For example, department expenditures from the family relief fund were less than \$12,000 in fiscal year 2009 and totaled only approximately \$122,000 in fiscal year 2010. However, the Department spent nearly \$438,000 from the family relief fund in fiscal year 2011, most of which represented financial assistance provided to families. The family relief fund's fund balance totaled more than \$2.6 million as of June 30, 2011.

**Table 2: Military Family Relief Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Fiscal Years 2009 through 2011
(Unaudited)**

	2009	2010	2011
Revenues:			
Donations	\$ 1,080,525	\$ 1,006,322	\$ 1,015,993
Interest earnings	3,659	15,324	14,729
Total revenues	<u>1,084,184</u>	<u>1,021,646</u>	<u>1,030,722</u>
Expenditures:			
Personal services and related benefits		26,248	42,047
Professional and outside services	1,500	1,800	1,500
Travel			1,107
Aid to organizations and individuals	10,090	92,395	389,763
Other operating		1,878	3,285
Total expenditures	<u>11,590</u>	<u>122,321</u>	<u>437,702</u>
Net change in fund balance	1,072,594	899,325	593,020
Fund balance, beginning of year	<u>50,275</u>	<u>1,122,869</u>	<u>2,022,194</u>
Fund balance, end of year	<u>\$ 1,122,869</u>	<u>\$ 2,022,194</u>	<u>\$ 2,615,214</u>

Source Auditor General staff analysis of the AFIS *Accounting Event Transaction File* and the AFIS Management Information System *Status of General Ledger-Trial Balance* screen for fiscal years 2009 through 2011.

FINDING 1

The Arizona Department of Veterans' Services (Department) should take additional steps to improve its administration of the Veterans' Donations Fund (donations fund), and the Legislature should consider strengthening statutory controls over the donations fund. In 2009, a special investigation by the Office of the Auditor General identified more than \$670,000 in misused monies and procurement violations. Although the Department established new procedures for administering the donations fund, the current audit identified uses of donations fund monies that did not benefit Arizona Veterans and also found that the Department did not consistently follow its new procedures. To better ensure the appropriate spending of donations fund monies, the Legislature should consider statutory changes that would place additional requirements on the Department for spending donations fund monies. Regardless of whether the Legislature decides to make changes, the Department needs to take its own actions to enhance procedures and controls.

Additional actions needed to improve Veterans' Donations Fund administration

Prior investigation found improper expenditures

In response to a request from the Arizona Attorney General's Office for an investigation of potential conflict-of-interest violations by the former department director, in November 2009, the Office of the Auditor General released a special investigative report on the Department.¹ This report included a review of expenditures from the donations fund. The investigation found that the Department's former director misused donations fund monies in the following ways:

- Authorizing \$37,000 in payments to establish a private, nonprofit corporation and pay for its administrative costs;
- Authorizing \$38,595 in payments for employee-related gifts and banquets, which violated the Arizona Constitution's prohibition against gifting of public monies;
- Authorizing \$213,200 in payments to build a war memorial although the Governor had explicitly prohibited using public monies for the memorial; and
- Spending \$382,757 on media and advertising services that were not competitively procured.

On November 18, 2009, the Arizona Attorney General's Office took criminal action against the former director, which resulted in his indictment on eight felony charges related to the misuse of public monies, conflict of interest, procurement fraud, and fraudulent schemes. The former director resigned in March 2007 and later pled guilty to two felony charges related to conflict of interest and procurement code violations. In October 2010, the former director was sentenced to 2 years of supervised probation and required to make restitution payments totaling \$421,352, as well as pay other fines and fees. The Governor appointed the Department's current director in July 2008.

To address control weaknesses that led to the investigative findings, the Auditor General recommended that the Department take the following actions:

¹ Office of the Auditor General, Special Investigative Unit. (2009). *Arizona Department of Veterans' Services: Misuse of public monies, conflict of interest, and misfeasance by the former director*. Phoenix, AZ: Author.

- **Appropriately use donations fund monies**—The Department should ensure the prudent use of public money, and more specifically, the proper use of donations fund monies. Expenditures from the donations fund should be approved only if they support the Department’s needs in its role to serve Arizona veterans.
- **Seek legal guidance prior to using donations fund monies to make significant purchases**—To help ensure compliance with applicable statutes, rules, and the Governor’s orders, the director should consider discussing any planned large donations fund expenditures with the Department’s legal representative.
- **Follow state procurement rules**—The Department must ensure that all contracts are awarded in compliance with the Arizona Procurement Code as outlined in Arizona Revised Statutes and the Arizona Administrative Code. These rules exist to help ensure that state agencies receive the best possible value for the public money they spend by requiring competition among vendors.

Department established donations fund administration procedures

The department director has established a multi-level review process for donations fund expenditures.

In December 2009, the Department’s new director established a multi-level review process for donations fund expenditures to improve administration of this fund. In his directive establishing the new practices, the director stated that the purpose was to create an audit trail and ensure the reasons for decisions are preserved for future review. The new process includes the following steps:

- **Applicant submits funding request form**—Applicants for donations fund monies are required to complete and submit a funding request form. This form requires the applicant to identify what the requested funding will be used for, who it will support, and the possible impact if the request is not funded.
- **Committee consideration of requests**—The director established a committee to advise him on donations fund expenditures. The three-member committee consists of the Department’s chief financial officer, its public information officer, and one of its two assistant deputy directors. The committee is to review funding request forms to ensure the request benefits Arizona veterans. The committee is supposed to make its recommendations in writing, including an explanation if it recommends denying the request.
- **Deputy director’s review of requests**—The Department’s deputy director is then to review the request and indicate whether he concurs with the committee’s

recommendation. He is also to indicate whether he recommends approval of the award of funds.

- **Director's review and prerogatives**—The director makes the final decision and retains the authority to direct donations fund expenditures without committee action. However, the deputy director is to provide written explanations if the director makes a decision without the full committee's action.

Most donations fund expenditures reviewed benefited Arizona veterans, but some did not, and Department did not follow applicable requirements for most expenditures

Even with the Department's new procedures, auditors continued to find problems. Auditors reviewed 18 donations fund expenditures totaling more than \$253,000 and determined that although most of these expenditures benefited Arizona veterans, six expenditures, totaling more than \$108,000, did not. Additionally, most of the expenditures auditors reviewed were distributed to outside organizations, and these expenditures did not follow applicable statutes that govern these types of distributions. The Department also did not document that it obtained legal advice about proposed expenditures and it did not consistently follow the new review process it had adopted.

Some expenditures benefited Arizona veterans—Auditors reviewed a sample of 18 donations fund expenditures for the period December 1, 2009 through June 30, 2010, totaling \$253,540 to determine whether the Department spent these monies appropriately.¹ This review found that 12 of 18 expenditures, totaling approximately \$145,000, benefited Arizona veterans, and that most of these expenditures were distributed to nonprofit organizations. These included:

- **Computers for student veterans**—The Department provided approximately \$10,700 to a University of Arizona program that provides services to help Arizona veterans integrate into a higher education environment. The program requested the monies to purchase computers for student veterans to use while in the program office.
- **Materials for teaching veterans construction skills**—Another nonprofit organization received \$25,000 in donations fund monies to purchase building materials for use in teaching homeless veterans construction skills.

Auditors found that 12 of 18 expenditures reviewed, totaling approximately \$145,000, benefited Arizona veterans.

¹ Auditors examined a sample of 17 of the 182 donations fund expenditures made between January 1, 2010 and June 30, 2010, representing approximately 51 percent of the total amount spent during the period. Additionally, auditors reviewed one donations fund expenditure made in December 2009. The 18 expenditures represented a range of vendors, expenditure types, and dollar amounts.

The Department did not ensure that six reviewed expenditures, totaling \$108,498, benefited Arizona veterans.

- **Fence at Veteran Home**—The largest donations fund expenditure reviewed was a payment of \$35,000 out of a total approved donations fund amount of nearly \$66,000 to install a fence around the Veteran Home to ensure the safety of cognitively impaired residents. The Department operates the 200-bed Veteran Home, located in Phoenix, to provide nursing care to eligible Arizona veterans, their spouses, and parents whose children died while serving in the U.S. Armed Forces. (See Report No. 11-06 for additional information on the Veteran Home.)

Other expenditures did not benefit Arizona veterans—For 6 of the 18 expenditures reviewed, which totaled \$108,498, the Department did not ensure the expenditures benefited Arizona veterans. Specifically, the Department:

- **Paid the Fiduciary Board investigation and disciplinary costs**—The department authorized a \$28,498 payment to the Arizona Supreme Court for investigation and disciplinary proceeding costs related to problems the Supreme Court found in the Department's administration of fiduciary responsibilities.¹ On November 16, 2009, the Department entered into a consent agreement with the Arizona Supreme Court's Fiduciary Board and agreed to pay investigation and disciplinary proceeding costs and acknowledged numerous violations. These violations included the failure to promote the welfare and safety of a fiduciary client; properly monitor the fiduciary client's taxes and bank accounts, causing penalties and fees; adequately monitor attorney's fees and obtain court approval for a portion of its attorney's fees; and file annual accountings and inventory reports in a timely manner. This expenditure, which resulted from the Department's failure to meet its fiduciary responsibilities for managing client's affairs, did not benefit Arizona veterans.
- **Provided benefits to veterans outside of Arizona**—The Department authorized a \$10,000 payment to a nonprofit organization that spent the money on activities that did not solely benefit Arizona veterans. On May 7, 2010, the Department authorized this \$10,000 payment to a national organization based in Alexandria, Virginia. The funding request, which contains the director's signature of approval, states the monies were requested to support new and existing veterans' drug treatment courts nation-wide and to help other states develop legislation to support this program. According to a department official, the monies were provided so that a national expert who worked for the organization would come to Arizona to help establish a veterans' drug treatment court in Tucson.² However, the Department could not

¹ The Department's fiduciary program provides assistance to veterans who need help in managing their assets or can no longer care for themselves. The Department spent a total of \$76,700 in donations fund monies in fiscal years 2009 and 2010 to support the fiduciary program's operations. (See Report No. 11-03 for additional information on the fiduciary program.)

² A veterans' drug treatment court serves veterans struggling with addiction using intensive treatment and close supervision combined with other veterans' services.

provide any documentation to support that the expenditures of these monies solely benefited Arizona veterans, as required by statute.

- **Supported administrative and fund-raising costs of nonprofit organizations—**
The Department authorized payments totaling \$70,000 to four nonprofit organizations whose stated purposes are to assist veterans. Based on the Department's documentation, some of these monies supported these organizations' administrative and fund-raising activities. For example, in February 2010, the Department provided \$25,000 to one organization for various purposes. However, according to a letter from the organization to the Department, at least 45 percent of these monies were used for administrative costs. In another example, in May 2010, the Department provided \$20,000 to an organization that planned to spend \$10,000 to sponsor a training conference for veterans' service providers and use the remainder as seed money to help support the organization.

Although a portion of these monies may have benefited Arizona veterans, the Department has inadequate documentation to determine the value of the benefit veterans received compared to the amount of monies spent. According to a 1985 Arizona Attorney General opinion, public monies must be spent for public purposes, and the value the public receives cannot be far exceeded by the amount of the monies provided.¹ In addition, public monies must be spent for the purposes for which they were intended. However, without sufficient documentation, the Department cannot ensure that these expenditures satisfied these requirements.

Most expenditures did not follow Arizona statutes regarding expenditures of public monies—Arizona statutes establish requirements for expenditures of public monies in two ways. First, the State Procurement Code in Arizona Revised Statutes (A.R.S.) §41-2501 et seq govern the use of public monies to purchase goods and services. Second, A.R.S. §41-2701 et seq govern grant solicitation and award, which involves the granting or distribution of public monies to defined beneficiaries for stated purposes. These statutes help to ensure that public officials obtain the best value and ensure fair competition for public monies (see textbox, page 10, for a summary of requirements). For 3 of 18 expenditures auditors reviewed that involved the purchase of goods and services over the \$5,000 procurement threshold, the Department followed applicable procurement laws.

However, for the 13 expenditures involving the distribution of donations fund monies to various beneficiaries, the Department did not follow applicable laws.² These expenditures supported the activities of nonprofit organizations. For example, the Department distributed \$25,000 to a nonprofit organization that works to help

The Department followed the procurement code for the three expenditures reviewed that involved the purchase of goods and services over the \$5,000 procurement threshold.

¹ Op. Ariz. Att'y Gen. 185-051 (April 10, 1985).

² In addition to the 3 expenditures that followed the State Procurement Code and the 13 expenditures that should have followed the grant statutes, the remaining 2 of the 18 expenditures in the sample were for (1) fiduciary court fees and (2) a procurement of goods and services that was under the \$5,000 procurement threshold, so neither the State Procurement Code nor grant laws applied to these expenditures.

Statutory requirements regarding expenditures of public monies

Procurement

- Applies to all expenditures of public monies of more than \$5,000 except for grants and contracts with political subdivisions.
- Requires request for bids or proposals that describes the purchase, contract terms, evaluation criteria and their relative importance.
- Requires 2 weeks' public notice.
- Bids and proposals must be opened publicly.
- Award based solely on evaluation criteria set forth in the request for bids or proposals.

Solicitation and award of grants

- Applies to all grants except certain Board of Regents and agricultural program grants.
- Requires request for grant applications that describes the grant, funding source, total monies available, evaluation criteria, and their relative importance.
- Requires 6 weeks' public notice.
- Grant applications must be received publicly.
- Applications reviewed solely on the evaluation criteria set forth in the request for grant applications.

Source: Auditor general staff analysis of A.R.S. §§41-2501 et seq and 41-2701 et seq.

The Department did not follow statutes regarding grant solicitation and award for the 13 expenditures auditors reviewed and to which these statutes applied.

veterans who may develop epilepsy as a result of traumatic brain injuries. Because the donations fund is not exempt from the grant solicitation and award statutes, the Department must comply with those statutes when distributing donations fund monies to nonprofit organizations. Altogether, 13 of the 18 expenditures auditors reviewed, ranging in amount from \$1,000 to \$25,000, should have been awarded under those requirements. In all 13 instances, however, the Department did not follow these statutes. For example:

- The Department did not ensure fair competition for grant monies by issuing a request for grant applications that described evaluation criteria and their relative importance. As a result, some potential applicants may not have been aware of the availability of the monies, and applicants did not know how applications would be evaluated.
- Because it did not issue a request that identified the criteria, the Department could not follow the requirement to evaluate applications solely on the basis of these criteria. This statutory requirement not only helps to ensure fairness but also helps to ensure that the applications that receive funding represent the best uses of the monies.

Department did not document seeking legal advice regarding expenditures—The 2009 special investigative report recommended that the director should seek legal guidance and discuss significant expenditures with the

Department's legal representative prior to making the expenditure.¹ A department official stated that the Department's assistant attorney general attends the Department's weekly executive staff meeting, providing an opportunity for the director to consult with him as needed when he has questions about specific expenditures. However, if such a consultation occurred for any of the 18 reviewed expenditures, the Department did not document it.² Additionally, according to a member of the committee the director established to review donations fund expenditures, the committee did not obtain legal guidance for any of the 18 expenditures auditors reviewed.

Department did not follow its procedures for some expenditures—As illustrated in Table 3, auditors found that the Department did not always follow its new procedures. First, it did not always follow the procedure regarding committee review. In 3 of the 18 reviewed expenditures, the committee did not review the request, and for another 4 expenditures, only two of the three committee members reviewed the requests. Although the director can make award decisions without any committee input, in such cases, the deputy director must document the reasons for the director's decision, and this did not happen for any of the 7 expenditures that lacked the full committee's review. Second, the Department did not always follow the procedure regarding the deputy director's review. For 2 expenditures, there was no review by the Department's deputy director. For 4 additional expenditures, the deputy director signed the request but did not indicate whether he recommended approval or denial of the request. Finally, the expenditure of monies to pay court fees for the fiduciary program, discussed previously, was made without a request form.

Table 3: Department Compliance with New Review Process for Donations Fund Expenditures December 1, 2009 through June 30, 2010

Review Process	Process Followed	Total Expenditures Reviewed
Applicant submits funding request form	17	18
Three-member committee considers the request and makes award recommendation	11	18
Deputy director reviews committee's recommendation and makes own recommendation	12	18
Deputy director is required to provide written explanation, if director makes decision without full committee's recommendation	0	7

Source: Auditor General staff analysis of 18 donations fund expenditures and associated documentation from December 1, 2009 through June 30, 2010.

¹ Significant purchases, similar to thresholds established by the procurement code, would include any expenditure of \$5,000 or more.

² According to an assistant attorney general, because the Attorney General's Office represents the Supreme Court's Fiduciary Board as well as the Department, it could not advise the Department regarding the use of donations fund monies to pay the \$28,498 in Fiduciary Board-assessed fees associated with the Department's fiduciary program because it would be a conflict of interest.

Legislature should consider strengthening existing statutory controls

Given the persistence of these problems, Legislative action may be needed to help ensure the Department appropriately spends donations fund monies. Although existing statutes require the Department to comply with procurement and grant solicitation and award requirements regarding donations fund expenditures, one approach would be to explicitly require the Department to follow applicable grant statutes if it continues to provide monies to third-party organizations. A second, equally viable approach would be to require the Department to limit donations fund expenditures to benefiting Arizona veterans through its own programs and operations. Specifically, the Legislature should consider:

- **Explicitly authorizing use of donations fund monies to provide grants—**Most of the donations fund expenditures auditors reviewed were grants to nonprofit organizations, but as discussed previously, the Department did not follow statutory requirements for grant solicitation and awards established in A.R.S. §41-2701 et seq. Therefore, the Legislature should consider 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.
- **Limiting the use of donations fund monies to direct benefits provided through department programs—**Alternatively, the Legislature may wish to prohibit the use of monies for grants to nonprofit organizations and instead, specify that the Department should use donations fund monies itself to directly benefit veterans through its own programs such as the Veteran Home and its veterans' benefit counseling services.

Legislature should consider placing additional controls on the donations fund

To better ensure that donations fund monies are used appropriately, the Legislature should also consider creating additional statutory guidelines for expenditures from the donations fund. Some other Arizona donation funds have more stringent requirements in statute. For example, A.R.S. §28-2422.02 establishes the Spaying and Neutering of Animals Fund, which is administered by the Companion Animal Spay and Neuter Committee established by A.R.S. §28-2422.01. This Committee allocates the fund monies according to a grant selection process and reports to the Governor and legislative leaders annually on its administrative expenses, grants and grantees, and fund balance. The types of statutory provisions that the Legislature could consider for the donations fund include the following:

Some other Arizona donation funds have more stringent requirements in statute.

- **Removing director’s discretionary authority**—A.R.S. §41-608 states that, except for donations from certain special license plates, the donations fund monies “may be used for the benefit of the veterans within this state at the discretion of the director.” The Legislature should consider removing the reference to the director’s discretion from statute. Although the director has the authority to approve and expend donations fund monies, explicitly giving the director discretion in the statute without placing other restrictions on expenditures may create an environment that lacks the controls necessary to prevent fraud or other abuse, as evidenced by the several criminal findings in the 2009 investigative report.
- **Specifying uses of donations fund monies**—Statutes require that some donation funds must use their monies for specific purposes. For example, statutes governing the Developmentally Disabled Client Services Trust Fund Donation Account specify what the monies may and may not be used for. According to A.R.S. §36-572(H), these monies may be used to enhance existing services being provided or to extend new services to those not presently served, but the monies may not be used to supplant State General Fund monies for developmental programs. Similarly, statute requires that half of the monies in the State Parks Enhancement Fund be used for acquiring and improving real property and half for the operation of State Parks. The Legislature should consider establishing more specific requirements regarding the expenditure of donations fund monies. The department director agrees that clearer statutory guidance would be helpful.

Additionally, statutes for some other funds that, similar to the donations fund, receive most of their monies from specialty license plates specify that the monies are to be provided to nonprofit corporations for specific purposes. For example, A.R.S. §28-2434, which establishes an emergency medical services specialty license plate, specifies that monies from the sale of these license plates go to a nonprofit organization that must use the monies for public purposes related to emergency medical services. The Legislature should consider specifying in statute the specific purposes for which donations fund monies can be granted.

- **Creating external oversight**—Statutes require that some donation funds have oversight by an external body. For example, the Developmental Disabilities Advisory Council has the authority to oversee and approve expenditures from the Developmentally Disabled Client Services Trust Fund Donation Account. Similarly, the Board of Directors of the State School for the Deaf and Blind are the trustees of donations to the school, and the State Parks Enhancement Fund is overseen by the Joint Committee on Capital Review. The Legislature could consider making the Arizona Veterans’ Service Advisory Commission (Commission), which consists of nine veterans nominated by veterans’ organizations and appointed by the Governor, responsible for reviewing and approving donations fund expenditures. However, because of the relationships between the members and veterans’ organizations that may seek funding from the donations fund, if the

Legislature makes this change, it should also consider requiring the Commission to establish conflict-of-interest policies.

- **Mandating annual reports**—Some donation funds, such as the Arizona State School for the Deaf and Blind Donations Fund and the Spaying and Neutering of Animals Fund, have statutorily required annual reporting requirements regarding the use of fund expenditures to an associated committee or to the Governor. The Legislature should consider similarly requiring the Department to report annually on the use of the donations fund.

Department should strengthen its policies and procedures for distributing donations fund monies

Regardless of whether the Legislature decides to add statutory restrictions, the Department should take steps to strengthen its own donations fund policies and procedures and ensure donations fund monies are spent appropriately. Specifically, the Department should:

- **Establish a formal grant process**—Consistent with A.R.S. §41-2701 et seq, the Department should develop and implement a formal grant process to distribute donations fund monies for the benefit of Arizona veterans.¹ This strengthened process, which should be followed for all donations fund expenditures except for purchases of goods and services, should address and include all statutory requirements for grant solicitation and awards. Elements of this grant process should include the following:
 - A request for grant applications that includes: (1) a description of the nature of the grant project, including the funding source and total amount of available monies; (2) the criteria or factors under which applications will be evaluated and the relative importance of each criteria or factor; and (3) the due date for application submittal and the anticipated time the awards may be made;
 - A public notice of the request for grant applications at least 6 weeks before the application due date, and a requirement to publicly receive grant applications at the time and place designated in the request; and
 - A requirement that applications be reviewed by at least three evaluators, based solely on the evaluation criteria or factors set forth in the request for grant applications. Specifically, the evaluators should make written

¹ The only instance in which strengthened procedures would not be needed is if the Legislature modifies statute to limit the use of donations fund monies to the Department's own programs; in that case, the State Procurement Code applies, and the Department would not need to establish a grant process.

Grant statutes require a request for grant applications that defines criteria or factors for evaluating applications.

recommendations regarding award to the department director, who may affirm, modify, or reject these recommendations. If the director does not affirm the evaluators' recommendations, he/she should provide a written explanation for this decision.

- **Require grant recipients to report on how monies are used**—Requiring recipients of donations fund monies to report on how they used the monies, including providing supporting documentation such as receipts and invoices, would help ensure that those monies are used for a valid, public purpose that supports the Department's mission for Arizona veterans. Although the Department does not routinely require an expenditure report, it requested such a report from recipients in July 2010 to help it evaluate the impact of donations fund monies. When it received the report from one nonprofit organization, it discovered that most of the activities the donation supported were fund-raising or marketing in nature, which the committee had specifically prohibited when deciding to recommend awarding monies to the organization. In addition to helping direct future expenditures to appropriate uses, requiring an applicant to report on how it used donations fund monies, including providing supporting documentation such as receipts and invoices, could enable the Department to recover monies that were used inappropriately. The Department should also communicate to applicants that misuse of monies or failure to provide this information will cause any future requests to be denied.
- **Add certification to funding request forms**—The Department should further improve accountability for the monies awarded by requiring applicants to sign the request form, which would provide a sworn statement certifying that the information provided is accurate and that the monies will be used for the requested purpose.
- **Take steps necessary to comply with the 2009 investigative report recommendations**—Specifically, the Department should: (1) limit its donations fund expenditures to only those requests that benefit Arizona veterans; and (2) seek and document legal counsel advice prior to making significant procurements—those over \$5,000—to ensure the Department's compliance with applicable state laws, regulations, and executive orders.

Recommendations

- 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.
- 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;
 - c. Requiring that the Arizona Veterans’ Service Advisory Commission or some other external body review and approve expenditures from the donations fund; and
 - 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.
- 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:
- a. Issuing a request for grant applications that includes:
 - 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;
 - 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
 - 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.
- 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
 - 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.
- 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
 - 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.

FINDING 2

The Arizona Department of Veterans' Services (Department) has assisted eligible families with Military Family Relief Fund (family relief fund) monies, but its Advisory Committee (Committee) should establish additional criteria to help guide award decisions. The Committee receives applications from families of service members deployed after September 11, 2001, and recommends awards for the department director's consideration. Although the Committee generally follows award eligibility criteria outlined in statute, auditors identified inconsistencies in some of the awards reviewed. As a result, the Committee should establish additional criteria for guiding its recommendation decisions. The Committee should also document the reasons for its recommendations, and establish and implement a process for communicating its reasons for award recommendations. The Department should modify its appeals process and inform applicants of their option to appeal decisions. Additionally, the Department should request that an assistant attorney general regularly attend committee meetings to ensure that the Committee complies with statutory requirements.

Military Family Relief Fund has assisted numerous families, but additional criteria needed to better guide award decisions

Family relief fund assists veterans and their families

The Legislature established the family relief fund to assist military service members, veterans, and their family members. Specifically, Arizona Revised Statutes (A.R.S.) §41-608.04 establishes eligibility for assistance from the family relief fund and sets out other requirements (see textbox). Although not further explained in statute, these include a demonstrated financial need and that a member of the applying family was deployed or entered active military service on or after September 11, 2001. Eligible families and service members can apply for assistance with living expenses, families' costs of travel, and temporary housing near the medical facility where an injured or ill service member is being treated, and other appropriate expenses as determined by the Committee. Statute also established an Advisory Committee to review applications for assistance and make award recommendations to the Department's director. The director must then approve, reject, or alter the Committee's recommendations.

Statutory eligibility requirements¹

An immediate family member, service member, or former service member may apply for financial assistance from the family relief fund. To be eligible:

- An applicant must have financial need.
- A service member must have been deployed to a combat zone after September 11, 2001.
- A service member should have done one of the following:
 - Entered active military service after September 11, 2001, from Arizona or claimed Arizona as the home state of record; or
 - Been deployed from a military base in Arizona; or
 - Been a member of the Arizona National Guard at the time of deployment.
- If service member was discharged, the discharge must have been under honorable conditions.

¹ A.R.S. §41-608.04 also requires that the service member of an applying family must have been deceased, wounded, or injured, or become seriously ill after September 11, 2001. As of July 29, 2010, Laws 2010, Ch. 254, temporarily expanded eligibility until December 31, 2011, to include any service members, veterans, and the family members of veterans who deployed on or after September 11, 2001, who are experiencing financial need, regardless of the veteran's health. Laws 2011, Ch. 126, §2, extended this change through December 31, 2012.

Source: Auditor General staff review of A.R.S. §41-608.04; Laws 2010, Ch. 254; and Laws 2011, Ch. 126.

In addition to the statutory requirements, the Committee has established additional criteria to help guide its award recommendations. For example, the Department's proposed administrative rules add the criteria that the applicant's financial hardship must have come as a result of military service.¹

The Department received its first application for family relief fund monies in July 2008, and through January 2011, the family relief fund had assisted 79 veterans and/or their families in financial need. As of January 2011, the Department had received 117 family relief fund applications and made 100 awards in total, including 21 awards to families that received more than one award. For example, one veteran with a service-related traumatic brain injury was unable to work and received \$2,900 in emergency assistance to help his family with a mortgage payment. Two months later, the family was awarded \$4,830 to help them meet living expenses until the time the veteran's wife could stop taking care of the veteran full-time and return to work. Awards have ranged from approximately \$200 to \$20,000—the maximum amount allowed by statute—with an average award size of just over \$3,500. The family relief fund has assisted veterans with a variety of needs. As shown in Table 4, for the 20 awards made between September 1, 2010 and January 31, 2011, the family relief fund assisted veterans with needs ranging from gas for transportation to home modifications.

From July 2008 through January 2011, the family relief fund had assisted 79 veterans and/or their families in financial need.

Table 4: Assistance Provided by Military Family Relief Fund September 1, 2010 through January 31, 2011 (Unaudited)

Types of Assistance	Applicants Awarded	Total Awarded
Gas for transport to medical appointments	1	\$ 2,400 ¹
Family travel to injured service member	1	5,726
Home or vehicle repair	3	8,623
Home or vehicle modification for amputee	2	39,500
Living expenses due to:		
Delayed disability payments	2	3,018
Unemployment	2	6,291
Disabilities that prevent employment	9	38,315
Total	20	\$ 103,873

¹ The gas expenses were for an injured service member to travel from his home to the nearest naval hospital where he received medical treatments 3 to 5 times a week over an 8-month period.

Source Auditor General staff analysis of family relief fund records, financial documents, and committee meeting minutes from September 1, 2010 through January 31, 2011, for all 20 awards the Committee approved.

¹ The Department developed proposed rules to govern the family relief fund. However, Laws 2010, Ch. 287, §18, established a moratorium on rulemaking until the end of fiscal year 2011, with certain exceptions, and, until it expired, required prior written approval from the Governor's Office to conduct rulemaking. Therefore, the family relief fund's rules have not been adopted as of September 2011.

Committee made some inconsistent award recommendations and did not obtain sufficient evidence to support all awards

Although the Department and Committee have complied with some administrative requirements for the family relief fund, based on auditors' review of several awards, the Committee made some inconsistent award recommendations that the director approved. Further, the Committee did not consistently ensure that the needed evidence, such as proof of a service member's status, was obtained to confirm eligibility and support award amounts.

Some basic administrative requirements met—The Department and the Committee comply with some requirements that apply to the family relief fund. Specifically:

- **Family relief fund's administrative costs are within statutory limit**—From the family relief fund's inception in fiscal year 2008 through fiscal year 2010, the Department's administrative costs for the family relief fund have not exceeded the limit established by A.R.S. §41-608.04(G), which allows the director to allocate up to 5 percent of the fund balance for administrative costs. For example, in fiscal year 2010, a total of \$1,006,322 was donated to the family relief fund, and the Department spent only 3 percent of these monies for the family relief fund's administrative costs.
- **Department follows some good accounting practices for the family relief fund**—Staff reconcile the family relief fund's fund balance in the Department's financial records with the State's accounting system quarterly, and as of fiscal year-end 2010, the balances matched. In addition, the files for all approved cases auditors reviewed contained the necessary authorization to release monies to the applicant.

In fiscal year 2010, the Department spent only 3 percent of donated family relief funds on administrative costs.

Committee has made inconsistent award recommendations—Auditors reviewed 20 family relief fund applications and found that the Committee did not consistently make award recommendations about what types of needs the Department should help applicants pay for and did not consistently require applicants to provide documentation to support their applications.¹ For some of these applications, the Department also did not document the basis for its decisions. Specifically:

¹ Auditors reviewed 20 applicant files from the 89 cases that were reviewed by the Committee between August 1, 2010 and January 31, 2011, selected randomly from a range of award amounts. These 20 applicant files included 14 that were approved by the Committee and recommended to the director for award.

- **Inconsistent awards for debt repayments**—The Committee recommended helping one applicant pay student loan and credit card debt, but recommended denying two other applicants' requests for assistance with such payments. In August 2010, the Committee recommended approval of \$9,017 to pay for a veteran's student loans and \$983 to satisfy his credit card balance. Conversely, in December 2010, two other applicants were denied financial assistance to pay for student loans or credit card bills, although they received assistance with other expenses. Specifically, one applicant was denied \$270 to pay a student loan bill, but was awarded \$5,726 for other financial assistance, and the second applicant was denied \$1,546 to assist with credit card bills, but was awarded \$4,583 in other financial assistance.
- **Inconsistent awards for grocery assistance**—The Committee made contradictory recommendations in two cases involving grocery assistance. In November 2010, the Committee recommended approval of \$800 in grocery payments for one applicant who was about to spend 2 months away from work recovering from a service-related injury. The Department provided the \$800 for groceries directly to the applicant, along with an additional \$500 for gas and vehicle maintenance. However, in December 2010, the Committee recommended denying financial assistance for groceries to another applicant who was totally disabled from service-related injuries. Even though the Committee provided grocery assistance directly to the first applicant, according to a committee member, it denied the second request for food assistance because it preferred to give monies to creditors instead of directly to applicants.

Some files lacked documentation of eligibility and need—Finally, the Department's files lacked documentation to confirm eligibility and support award amounts in 8 of the 14 approved case files auditors reviewed. Altogether, 4 case files lacked information to confirm that the applicant met eligibility criteria; 7 lacked sufficient financial documentation to support the amounts requested in the application, such as receipts, bills, and estimates; and 2 lacked an applicant's signature, which the Committee relies on to indicate that the information is accurate and truthful.¹ For example:

- **Application recommended for award despite significant questions regarding the applicant**—The Committee raised significant questions about the truthfulness and accuracy of one family's application, but recommended granting them assistance totaling more than \$5,700. In the application, the family claimed that they required assistance with several months' living expenses because of lost income as they traveled to be with their injured service member son. However, the Committee questioned whether the service

¹ The numbers in this sentence add up to 13 instead of 8 because several applicants' files lacked documentation in several areas. For example, one applicant lacked sufficient financial documentation to support the amounts requested in the application and documentation showing proof of Arizona residence or deployment, honorable release from service, or deployment after September 11, 2011.

member's father had actually been working during the time when the family claimed that travel had caused them to lose income. The Committee also stated that the application was incomplete and did not mention the father or his income. Further, one committee member said that the family had already benefited from fund-raisers that were also not reflected in the application. Three of six members questioned the honesty or/and accuracy of the documentation the applicant provided. However, without resolving these questions, the Committee recommended approving the award, and the director approved it.

- **Inadequate evidence to support \$19,500 award**—The Committee recommended approving one application for \$19,500 in January 2011 and the director approved it, although the case file lacked evidence to confirm that statutory eligibility requirements were met. For example, the file lacked documentation to prove that the applicant was a service member, that he was deployed after September 11, 2001, and that he was either an Arizona resident or was deployed from the State. The Committee stated that it obtained verbal confirmation of the service member's residency from his military liaison officer. However, this was not documented in committee records. Finally, the case file lacked evidence of financial need such as documentation to support the service member's financial resources and expenses.
- **Insufficient documentation for \$13,000 award**—Another application was similarly recommended for approval and approved by the director for \$13,000 in August 2011, although the file lacked evidence of eligibility and financial need. In addition, it lacked a signature on the application to attest that the information provided in the application was true.

The Committee recommended approving one application for \$19,500, and the director approved it, even though the case file lacked evidence to confirm that statutory eligibility requirements were met.

Committee should establish additional criteria for awards

The Committee should take additional steps to ensure its award recommendations are consistently made and retain sufficient documentation in its files to support its decisions. Specifically, the Committee should develop additional award criteria to help guide its award recommendation decisions. Additionally, the Committee should ensure that the new criteria includes the ability to make exceptions in specified circumstances.

Committee should develop additional award criteria—Standard criteria for decision making would help the Committee ensure its recommendations are consistent. Although statute establishes basic eligibility criteria, it does not provide guidance for the Committee regarding factors it should consider when making recommendations for expenses that can be paid for using family relief fund monies (see textbox, page 19). The Committee's policies and guidelines and the Department's proposed rules do not provide this additional guidance.

Maine's Military Family Relief Fund considers the nature of assistance requested, whether there is a causal connection between military service and financial hardship, and other factors in making an award.

Other states have established more specific guidelines for their similar funds. Auditors reviewed six other states' military family assistance programs and the Arizona National Guard's Emergency Relief Fund program.¹ Five of the six states and the Arizona National Guard have established more specific requirements regarding what their respective military family relief funds will pay for. All of these states also have more extensive descriptions of eligibility requirements and require more supporting documentation prior to considering the application. For example, rules for Maine's Military Family Relief Fund specify:

- **Factors that will be considered in making award determinations**—Factors that the Maine National Guard considers include the nature of the assistance requested, the degree of financial hardship, bankruptcy, length of military duty, other aid available or received, amounts and dates of previously awarded monies to the applicant, and whether there is a causal connection between the financial hardship and the military member's active duty status. For example, when assessing the causal connection, factors considered include whether there was a change in income due to the military member's active duty, or a change in employment or income status of dependents related to the military member's active duty status.
- **Types of expenses that can be covered**—Maine's rules list specific expenses that can and cannot be paid for with its fund's monies. For example, although Maine's fund will provide assistance for food, emergency vehicle repair, and medical/dental expenses, it will not assist with legal fees, cover bad checks, or pay credit card bills.
- **Documentation required of applicants**—Applicants must submit leave and earnings statements, proof of dependence for veterans' family members, and other documentation such as car repair estimates, rental agreements, utility bills, bank statements, and employment records.

Similarly, the Committee should develop additional criteria for the family relief fund that will help ensure consistent decisions. Specifically, the Committee should develop and implement policies and procedures that define and explain the criteria for considering applications for family relief fund monies and making award recommendations. The criteria should include the factors that the Committee will consider in reviewing applications, the types of expenses the family relief fund can pay for, and documentation requirements for applicants. Clearer criteria would not only help the Committee, but would also help potential applicants understand the types of expenses or needs that would qualify for assistance and identify the documents they should provide with their applications.

¹ Auditors reviewed military family assistance programs in California, Illinois, Louisiana, Maine, Michigan, and Missouri. The programs in California, Maine, and Missouri are administered by those states' National Guards, while the rest are administered by state military or veterans' affairs departments. Auditors selected these states because they have military family relief funds with similar goals to Arizona's program. Auditors also reviewed the Arizona National Guard's Emergency Relief Fund, which provides assistance in the form of interest-free loans or grants.

Award criteria should allow for exceptions—When establishing the new criteria, the Committee should retain the ability to allow for exceptions based on specific circumstances and require that the reason for the exceptions be documented in writing. Retaining the authority to make exceptions would allow the Committee, and later, the director, to continue to consider each case individually while still establishing formal criteria to better ensure consistent and fair decisions.

Retaining the authority to make exceptions when necessary would allow the Committee, and later, the director, to continue to consider each case individually.

Some other state veterans' assistance programs have some discretion in making award decisions. For example, the Illinois Military Family Relief Fund can waive criteria if extenuating circumstances exist, such as when required applicant documents cannot be immediately obtained and waiting to receive assistance would present undue hardship to the applicant. Similarly, Arizona's statutory requirements for grant awards allow agency directors to reject or modify evaluators' recommendations as long as they explain the reasons for their decisions in writing.

Procedural changes also needed

In addition to further developing award criteria, the Committee and the Department should improve their processes in three ways, and the Department should also request that an assistant attorney general attend committee meetings to help ensure compliance with statutory requirements. According to a committee member and the Department, as of August 2011, the Committee and Department had begun to implement some of these recommendations.

Better communication needed regarding reasons for recommendations and decisions—The Committee and Department need to improve communication regarding the reasons for approving or denying an application. The Committee should document its reasons when making its recommendations to the director, and then the Department should inform applicants in writing of the reasons for the director's decisions. The explanation should show how the decisions are based on the established criteria. As of June 2011, the Committee did not explain its rationale to the director, but department staff had begun developing a form for this communication. Further, applicants were not informed in writing of the director's decision, and when notified by telephone of the decision, they were not always informed of the reasons for award or denial. Improving communication would better ensure the director can make appropriate, consistent decisions in line with the criteria the Committee establishes. In addition, explaining decisions to applicants could enable them to correct deficiencies in their applications.

Other state veterans' assistance programs have established standards for reporting their decisions to the agency director and applicants. For example, the Maine Military Family Relief Fund Committee is required to provide a quarterly report to the Adjutant General stating the general reason for the award of monies to each

The Department should notify applicants in writing of decisions and the reasons for those decisions.

applicant. In addition, Illinois and Missouri Military Family Relief Fund rules require that fund staff send a letter explaining denials to the applicant within 30 days after reviewing the application.

Therefore, 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. Additionally, the Department should establish a process for notifying applicants in writing of the decisions regarding their applications, including the reasons for the decisions.

Department should revise appeals process and inform applicants of option to appeal—The Department should fully develop an appeals process and ensure that it informs applicants of their rights to appeal. Although the Department’s proposed rules include a process for appealing decisions, this proposed process does not conform to statutes that apply to grants.¹ Specifically, A.R.S. §41-2704 specifies that grant applicants can request a rehearing by the agency’s director, and if the director either denies the request or upholds his earlier decision, the applicant can appeal to the director of the Department of Administration. In contrast, the Department’s proposed rules indicate that the hearing would be held at the Office of Administrative Hearings and do not clearly explain the process. The Department should revise its proposed rules to more clearly specify the appeals process. In doing so, it should ensure that its rules conform with A.R.S. §41-2704.

Further, the Department does not inform applicants that they have the option to appeal. In its written notices of its decisions, it should notify applicants of their right to appeal.

Committee members should sign statements as required by statute and consider recusing themselves when they know applicants—A.R.S. §41-2705 requires evaluators of grant applications to sign a statement that they have no undisclosed interest in the decision and will not have contact with applicants while the application is under consideration, but committee members do not sign such a statement. The Department should develop a statement for committee members to sign prior to considering applications. In addition, auditors observed several cases where committee members knew applicants personally. None of these relationships represented statutory conflicts of interest. However, to avoid real or perceived bias in committee recommendations, the Committee should consider adopting a practice of discussing any relationships with appli-

¹ The Department has received a waiver for the family relief fund from certain statutory requirements related to grant solicitation and award. Specifically, on December 19, 2008, the director of the Department of Administration issued the family relief fund program a waiver from the competitive process set forth in A.R.S. §41-2702, which defines requirements for soliciting and awarding grants, because conducting periodic competitive grant solicitations would not be practical or consistent with the program’s needs. However, other requirements related to grant solicitation and award in A.R.S. §41-2701 et seq still apply to the family relief fund.

cants at the beginning of each of its meetings and remind members of the option to recuse themselves when appropriate.

Department should request assistant attorney general attendance at committee meetings—The Committee has made several recommendations with fewer members than statute requires and broken confidentiality laws in public session. Specifically, the Committee had too few members to constitute a quorum in two of the six committee meetings held between August 1, 2010 and January 31, 2011. In addition, committee members disclosed the names—which are protected as confidential by A.R.S. §41-608.04(E)—of at least four applicants during public session in two of the three committee meetings auditors observed.

To avoid such errors, the Department should ask its assistant attorney general to attend committee meetings. An assistant attorney general attended committee meetings throughout 2008, during the Committee's first year in operation. However, an assistant attorney general has not attended committee meetings since that time. The Department should invite an assistant attorney general to regularly attend committee meetings to help ensure compliance with statutory requirements and help the Committee determine how to apply statutory changes, such as those that temporarily broaden eligibility requirements.

Recommendations:

- 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:
 - a. Factors that will be considered during the decision-making process;
 - b. Expenses that are and are not eligible for award; and
 - 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.
- 2.3 The Department should develop and implement a process to inform applicants in writing of the reasons for the decisions regarding their applications.
- 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
 - b. Developing and implementing a process for informing applicants in writing that they have this option.
- 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
 - 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.
- 2.6 The Department should request that its assistant attorney general regularly attend committee meetings to help ensure compliance with statutory requirements.

APPENDIX A

This appendix provides information on the methods auditors used to meet the audit objectives.

This audit was conducted 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and staff express appreciation to the Arizona Department of Veterans' Services' (Department) Director and staff and to the Military Family Relief Fund Advisory Committee (Committee) members for their cooperation and assistance throughout the audit.

Methodology

Auditors used a number of methods to study the issues addressed in this report, including conducting interviews with department management and staff, as well as members of the Committee. Auditors also reviewed applicable Arizona Revised Statutes, department funds' records, and department guidelines.

In addition, auditors also used the following specific methods:

- To assess the appropriateness of Veterans' Donations Fund (donations fund) expenditures, auditors reviewed an Office of the Auditor General November 2009 special investigative report of the Department, which made recommendations regarding improvements needed in donations fund administration.¹ Auditors also selected a judgmental sample of 17 of the 182 donations fund expenditures made between January 1, 2010 and June 30, 2010, representing approximately 51 percent of the total amount spent during the period. Additionally, auditors reviewed one donations fund expenditure made in December 2009. The 18 expenditures were selected to represent a range of vendors, expenditure types, and dollar amounts. Specifically, auditors reviewed the sample to assess:
 - Whether department expenditures benefited Arizona veterans, as required by statute;
 - The Department's compliance with laws governing the spending of public monies. These laws included the State Procurement Code (A.R.S. §41-2501 et seq) and laws governing grant solicitation and award (A.R.S. §41-2701 et seq);
 - Whether the Department sought legal counsel prior to making significant purchases from the donations fund, as recommended by the 2009 investigative report; and
 - The Department's compliance with its own policies when awarding this sample of expenditures.

Finally, to inform recommendations made to the Legislature for its consideration, such as to consider strengthening the statutory requirements for

¹ Office of the Auditor General, *Special Investigative Unit*. (2009). *Arizona Department of Veterans' Services: Misuse of public monies, conflict of interest, and misfeasance by the former director*. Phoenix, AZ: Author.

donations fund uses, auditors reviewed the statutes of several funds that are similarly composed of donation monies.¹

- To determine the appropriateness of the Military Family Relief Fund (family relief fund) expenditures and administrative costs, auditors reviewed department expenditure-tracking documents and compared these against the Arizona Financial Information System (AFIS) balances. Auditors also reviewed the Department's proposed rules and other guidelines that direct the administration of the family relief fund. In addition, auditors reviewed 20 applicant files from the 89 cases the Committee considered between August 1, 2010 and January 31, 2011, selected randomly from a range of award amounts, to determine the consistency of the Committee's recommendations and sufficiency of documentation. Auditors also reviewed all committee meeting minutes between November 2007 and July 2011 and reviewed the statutes, rules, or Web sites of six other states' military family assistance programs and the Arizona National Guard's Emergency Relief Fund program.²
- Auditors' work on internal controls focused on assessing the adequacy of the internal controls the Department has in place for the administration of both funds. For example, auditors reviewed department policies, guidelines, and processes; performed interviews; and tested various funds' disbursements to determine how well these disbursements followed established internal controls. Auditors' conclusions on these internal controls are reported in Findings 1 and 2 of this report.
- To develop financial tables in the Introduction section, auditors gathered and analyzed information about the Department from the AFIS *Accounting Event Transaction File* for fiscal years 2009 through 2011 and the AFIS Management Information System *Status of General Ledger-Trial Balance* screen for fiscal years 2009 through 2011.

¹ Examples of funds auditors reviewed included the Developmentally Disabled Client Services Trust Fund donation account, State Parks Enhancement Fund, Spaying and Neutering of Animals Fund, and the donations fund for the State Schools for the Deaf and Blind.

² The six states were California, Illinois, Louisiana, Maine, Michigan, and Missouri.

AGENCY RESPONSE

JANICE K. BREWER
GOVERNOR



JOEY STRICKLAND
DIRECTOR

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September 26, 2011

Debra K. Davenport, CPA
Auditor General
State of Arizona Office of the Auditor General
2910 North 44th Street, Suite 410
Phoenix, Arizona 85018

Re: Performance Audit of the Arizona Department of Veterans' Services—Veterans' Donations
and Military Family Relief Funds

Dear Ms. Davenport:

I have reviewed the Performance Audit of the Arizona Department of Veterans' Services—Veterans' Donations and Military Family Relief Funds. Please accept the following eleven (11) pages as the Department's response to the Audit. Enclosed are the Department's written comments on the report.

Sincerely,

Joey Strickland
Director

Recommendations:

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.**

RECOMMENDATION 1.1

ADVS Response: 1.1a and b. Although this recommendation is directed to the Legislature, the Department responds in part:

Our foremost goal *is* to benefit Arizona's veterans and their families.

In some cases, such as with a donation in April 2010, the Department, through the National Association of Drug Court Professionals, brought Erie County New York Judge Robert T. Russell to Phoenix for a meeting at the State Bar of Arizona in which Judge Russell shared his first-hand knowledge about how "Veterans' Courts" programs work in order to integrate and develop similar endeavors for Arizona veterans here in our state. Judge Russell is a recognized national expert on Veterans' Courts. By this "indirect" method, the Department's donation has led to the foundation in Maricopa County and in Tucson of Veterans' Courts which do directly benefit Arizona's veterans. The Department reasoned that the object sought, in this case the establishment of Veterans' Courts in Arizona, and the degree and manner in which that object affects the public welfare has indeed brought about a public benefit at least corresponds to the donation. This donation is one of the six (6) that the Auditor claims did not benefit Arizona veterans. (Page 8)

(See attached Auditor General Reply, Item #1a)

Auditor General
Response
Re: Performance Audit of ADVS Veteran Donation Fund
September, 2011
Page Two

Additionally, the suggestion in 1.1b that the Department use "donations fund monies itself to directly benefit veterans through its own programs" is precisely what the Department did in the instance cited by the Auditor General whereas the Department paid the Fiduciary Board investigation and disciplinary costs in 2009. Had this payment to the Court not been made, the possibility is great that the Court would have sanctioned further or even shut down the Veterans' Fiduciary program leaving our 252 qualifying number of clients without adequate representation.

[\(See attached Auditor General Reply, Item #1b\)](#)

Much of the "action" benefiting Arizona's veterans is conducted by nonprofit organizations such as the Veterans of Foreign Wars of the United States (VFW), the American Legion and their numerous Arizona posts as well as by locally created smaller nonprofit organizations throughout the state. Prohibiting the use of donation fund monies or grants to such nonprofit organizations would make it very difficult to provide needed assistance to veterans throughout the state especially in more remote areas where the only available assistance may be provided by such nonprofits.

"Nonprofit" does not mean the organization does not incur operational expense. In an ideal world, every dollar would go directly to the intended cause. The fact is that doesn't happen. Donations are divided between the organization's cause and operational costs involved in championing those causes. Charities with at least \$25,000.00 in gross receipts are required to report to the I.R.S. using the Form 990. It provides information on the filing organization's mission, programs, and finances. The Form 990 becomes the only public document that reports on the finances of charities.

According to the Center on Nonprofits and Philanthropy and the Urban Institute Center on Philanthropy of Indiana University, strict financial ratio standards between the percentage of donations spent for operational costs and the percent that goes directly to the "cause" favor larger organizations whose popular causes have been in existence for long periods. However, we have found that getting assistance out to Arizona veterans often involves using smaller nonprofit organizations that have direct access to the veterans in their locale.

Additionally, assisting some organizations with their fundraising creates a "multiplier effect" allowing those organizations to return a benefit to Arizona's veterans and public that far exceeds the consideration paid by the public fund.

The Department operates the donation fund in consultation with the Department's assigned assistant Attorney General. The Auditor General has recommended statutory changes be made and the department looks forward to working with the legislature.

Auditor General
Response
Re: Performance Audit of ADVS Veteran Donation Fund
September, 2011
Page Three

The conclusion that some expenditures may not have benefited Arizona veterans is the opinion of the auditor and differs from that of the Department. The public, Arizona veterans and dependents in particular, received a value much greater than the Department expenditure through such assistance to military veterans and their families for rent and mortgage assistance, food, vehicle payments, vehicle repair, emergency financial assistance, in-state tuition at state colleges and universities for all veterans and spouses with an honorable discharge, veteran supportive campuses, veteran employment training, and two veteran diversion courts (Tucson and Phoenix). The auditor general's assertion fails in each case to show that the accomplishments sought and the manner in which each affected Arizona Veterans and families did not serve a public purpose.

(See attached Auditor General Reply, Item 1)

Neither the donation fund statute, A.R.S. §41-608 nor the Auditor General's November 2009 report

(http://www.auditorgen.state.az.us/Reports/State_Agencies/Agencies/Veterans_Services_Department_of/Veterans_Services_Department_of.htm)

specifically cites A.R.S. §41-2701 et seq (the grant solicitation and award statues) as a statute that should have been followed in regard to the donation fund. Nor have our repeated consultations with the Attorney General's office on how best to use the donation fund resulted in the Department being advised that it must follow A.R.S. §41-2701 et seq in connection with the donation fund.

Nor does a search of various statutorily created funds from A. R. S. 15-243, the Golden Rule Special Plate Fund, to A. R. S. 28-2435, the Arizona Masonic Fraternity Special Plates Fund, find any that specifically references that A.R.S. §41-2701 et seq must be followed in determining the recipient(s) of funds raised by the sale of those plates. In fact, and as an example, A.R.S. 28-2435 requires the trustees of the donating entity to distribute the monies in the fund to charities supported by Arizona Masons.

We welcome the opportunity to work with the members of the Arizona Legislature to further clarify the mechanics of using the donation fund.

RECOMMENDATION:

1.2 To better ensure that Veterans' Donation Fund monies are used appropriately, the Legislature should also consider revising statute to add more restrictive requirements to the donations fund. These additions 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;
- c. Requiring that the Arizona veterans' Service Advisory Commission or some other external body review and approve expenditures from the donations fund; and
- 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.

RECOMMENDATION 1.2

ADVS Response: Since this recommendation is to the Legislature, the Department has no response. We welcome the opportunity to work with the members of the Arizona Legislature to further clarify the mechanics of using the donation fund.

RECOMMENDATION:

1.3 Unless the Legislature amends statute to require it to spend Veterans' 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:

a. Issuing a request for grant applications that includes:

- 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.

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

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.

RECOMMENDATION 1.3

ADVS Response: The finding of the Auditor General is not agreed to, but the recommendation will be implemented.

The Department will work with members of the Arizona Legislature in assisting to determine the best method of revising its administration of the VDF. The Department anticipates there will be further guidance given by way of a statutory change and once received it is the Department's intention to follow that guidance along with complying with all applicable statutes.

RECOMMENDATION:

1.4 To help ensure that Veterans' 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**
- 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.**

RECOMMENDATION 1.4

ADVS Response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented. We welcome the opportunity to work with the members of the Arizona Legislature to further clarify the mechanics of using the donation fund. The Department plans to modify the donation fund request form to include a requestor signature block. The Department will also continue to request summations from the applicants as to their successes, and accomplishments. Additionally, as the Auditor General has recommended, following any statutory changes the Department will comply with the applicable state statutes.

RECOMMENDATION:

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

- a. **Limit Veterans' Donations Fund expenditures to only those requests that benefit Arizona veterans; and**
- 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; and**

RECOMMENDATION 1.5a

ADVS Response: The finding of the Auditor General is agreed to and the recommendation will not be implemented. The Department maintains that expenditures made from the Veterans' Donation Fund have benefited Arizona veterans.

RECOMMENDATION 1.5b

ADVS Response: The finding of the Auditor General is not agreed to and the recommendation will not be implemented.

The Department has sought legal advice on many issues including use of the donation fund. The Department is engaged in legal discussions with the assigned assistant AG at our regular staff meetings and special meetings as necessary. Counsel is an intricate part of the Department and remains well versed on the Department's use of the donation fund as well as many other areas of the Department's operation.

The Department strives to follow all state procedures and codes as applicable.

RECOMMENDATION:

- 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:**
- a. Factors that will be considered during the decision-making process;**
 - b. Expenses that are and are not eligible for award; and**
 - c. Documentation applicants should submit to support financial assistance requested in the application.**

Committee response:

The finding of the Auditor General is not agreed to, but the recommendation will be implemented. Basic award criteria were established in the governing statute and further refined in the Committee's Guidelines and Bylaws for the Arizona Military Family Relief Fund (MFRF) Advisory Committee (current revision Aug 2010). We have reviewed the extensive guidance of six other states and the AZ National Guard. A number of applications received by the AZ MFRF have been the result of restrictive criteria established by the AZ NG fund, precluding a number of applicants from receiving assistance and turning to the AZ MFRF instead. Additionally, after reviewing the guidance used in a number of other states, applicants must sort through lengthy, complicated requirements to even determine if they are eligible to apply. Having dealt with a large number of applicants at the AZ MFRF, it is clear the process and criteria must be simple for applicants dealing with stress, grief or tragedy to easily make their own determination whether to apply for assistance.

The Auditor General's Report cites a number of instances where the MFRF Committee's simple set of criteria led to inconsistent awards. In fact, the awarded grants under the AZ MFRF have been generally consistent; the complete record of rationale used in the cases cited is missing. This shortfall in the process has been corrected and records of decisions along with specific rationale are now recorded. In some cases, the Auditor cited lack of documentation or missing documentation. Every case is unique in its own right and verification of service, residency, wartime deployment, VA disability and other documentation is often not available in written form. In those cases the Committee verbally verified information via phone calls with the assigned service liaisons for injured service members, the VA, Veterans Service Organization representative, creditors and other sources through our ADVS representative. In not all cases were those conversations documented with a memo; that has been corrected. The AZ MFRF

Committee always seeks improvement in our volunteer operation and consequently, the Committee will review the comparable processes of the states of Maine, California, Missouri, Louisiana, Illinois and Michigan and our own experience and revise its Guidelines to include more specific factors in the decision-making process. We will also consider adding more specific expenses that will/will not be covered and how they will be paid (direct to creditors, not individuals). Required documents to be provided by the applicants are already listed on the application form; however, we will review the form to ensure clarity in the forms needed for the decision-making process.

RECOMMENDATION:

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.

Committee Response:

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. Effective during the 23 June 2011 MFRF meeting, each motion made by a member of the Committee towards an award decision included the rationale for approving, partially approving or disapproving an application. In the event the rationale is inadvertently not provided, the AZDVS representative supporting the board queries the Committee member making the motion for specific rationale for the motion as it relates to the award criteria. Further, the AZDVS representative includes the rationale information along with the Committee's decision to the Director for review.

RECOMMENDATION:

2.3 The Department should develop and implement a process to inform applicants in writing of the reasons for the decisions regarding their applications.

ADVS Response:

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. Effective 23 June 2011, each applicant now receives a letter in addition to verbal notification to inform them of the decision on their application and the rationale, their right to appeal and the appeals process.

RECOMMENDATION:

2.4 The Department should improve its appeals process by:

- a. **Modifying the proposed rules to conform with A.R.S. §41-2704 and clearly explain the process; and**
- b. **Developing and implementing a process for informing applicants in writing that they have this option.**

ADVS Response:

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The proposed rules for the Arizona Military Family Relief Fund will be modified to conform to A.R.S. §41-2704, and the revised appeals process has been put into practice. The Deputy Director will either approve or deny an application after receiving the Advisory Committee's recommendation. If the Deputy Director denies an application, the applicant may then appeal the decision to the Director who has not played any previous role in the decision making process. Applicants can then appeal a decision by the Director to the Director of the Department of Administration. Applicants are informed of their right to appeal and the appeals process in the written notification they receive informing them of the decision regarding their application and the reasoning.

RECOMMENDATION:

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

Auditor General
Response
Re: Performance Audit of Military Family Relief Fund
August 22, 2011
Page Eleven

ADVS Response:

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Department will work with our Assistant Attorney General to develop such a statement and have all Committee members sign this statement. The Committee already practices disclosing any information regarding a relationship a committee member may have with an applicant, whether that relationship is professional or personal, and each committee member understands the necessity of recusing oneself when appropriate. In July 2011, the Committee chairman directed a standard item be added to all meeting agendas where the Chairman will remind Committee members to disclose knowledge of applicants and recuse themselves in decision making if that knowledge or relationship could constitute undue bias. These current practices will be included in the disclosure statement created for the committee members to sign.

RECOMMENDATION:

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

ADVS Response:

The finding of the Auditor General is agreed to and the audit recommendation will be implemented. The Department's Assistant Attorney General has been informed of all Advisory Committee meetings and invited to attend. This practice will continue, but attendance is ultimately determined by the Assistant Attorney General's schedule and availability. Due to recent reductions in the staffing in the Office of the Attorney General, we have been informed they have been unable to support our meetings.

AUDITOR GENERAL REPLY TO AGENCY RESPONSE

The following comments are provided to address certain statements the Department of Veterans' Services (Department) made related to Finding 1, Recommendation 1.1, regarding the Veterans' Donations Fund (donations fund):

1. The Department states that the Auditor General's conclusion that some expenditures did not benefit Arizona veterans is the opinion of the Auditor General and that the Auditor General did not show that the expenditures did not benefit Arizona veterans or serve a public purpose. The Auditor General's findings and conclusions are based on a review of available department documentation and applicable Arizona laws and regulations, not opinion. The responsibility rests with the Department, not the Auditor General, to show whether donations fund expenditures benefited Arizona veterans and served a public purpose. The Auditor General disagrees that all donations fund expenditures reviewed by auditors either directly or indirectly benefited Arizona veterans. For example:
 - a. The Department asserts that its expenditure of \$10,000 to a national nonprofit organization indirectly benefited Arizona veterans because it helped to establish two veterans' drug treatment courts in Arizona (see page 1 of the Department's response). According to the Department, these monies were used to bring a national expert to the State for this purpose. However, as noted on page 8 of the report, the funding request stated that the monies would be used to support new and existing veterans' drug treatment courts nation-wide and to help other states develop legislation to support this program. In addition to these discrepancies, the Department lacks documentation to show how the \$10,000 was actually spent.
 - b. The Auditor General disagrees that the Department's expenditure of donations fund monies to pay investigation and disciplinary proceeding costs to the Arizona Supreme Court benefited Arizona veterans (see page 2 of the Department's response). As noted on page 8 of the report, these costs resulted directly from the Department's mismanagement of its fiduciary program and failure to fulfill its fiduciary responsibility to its clients—Arizona veterans. Thus, the Department asserts that its spending of donations fund monies benefited Arizona veterans because it failed to benefit Arizona veterans through its fiduciary program.

Performance Audit Division reports issued within the last 24 months

09-09	Arizona Department of Juvenile Corrections—Suicide Prevention and Violence and Abuse Reduction Efforts	10-L1	Office of Pest Management—Regulation
09-10	Arizona Department of Juvenile Corrections—Sunset Factors	10-09	Arizona Sports and Tourism Authority
09-11	Department of Health Services—Sunset Factors	11-01	Department of Public Safety—Followup on Specific Recommendations from Previous Audits and Sunset Factors
10-01	Office of Pest Management—Restructuring	11-02	Arizona State Board of Nursing
10-02	Department of Public Safety—Photo Enforcement Program	11-03	Arizona Department of Veterans' Services—Fiduciary Program
10-03	Arizona State Lottery Commission and Arizona State Lottery	11-04	Arizona Medical Board
10-04	Department of Agriculture—Food Safety and Quality Assurance Inspection Programs	11-05	Pinal County Transportation Excise Tax
10-05	Arizona Department of Housing	11-06	Arizona Department of Veterans' Services—Veteran Home
10-06	Board of Chiropractic Examiners	11-07	Department of Corrections—Oversight of Security Operations
10-07	Arizona Department of Agriculture—Sunset Factors	11-08	Department of Corrections—Sunset Factors
10-08	Department of Corrections—Prison Population Growth		

Future Performance Audit Division reports

Arizona Department of Veterans' Services and Arizona Veterans' Service Advisory Commission—Sunset Factors

Arizona Board of Regents—Tuition Setting for Arizona Universities

Arizona Board of Regents—Sunset Factors

