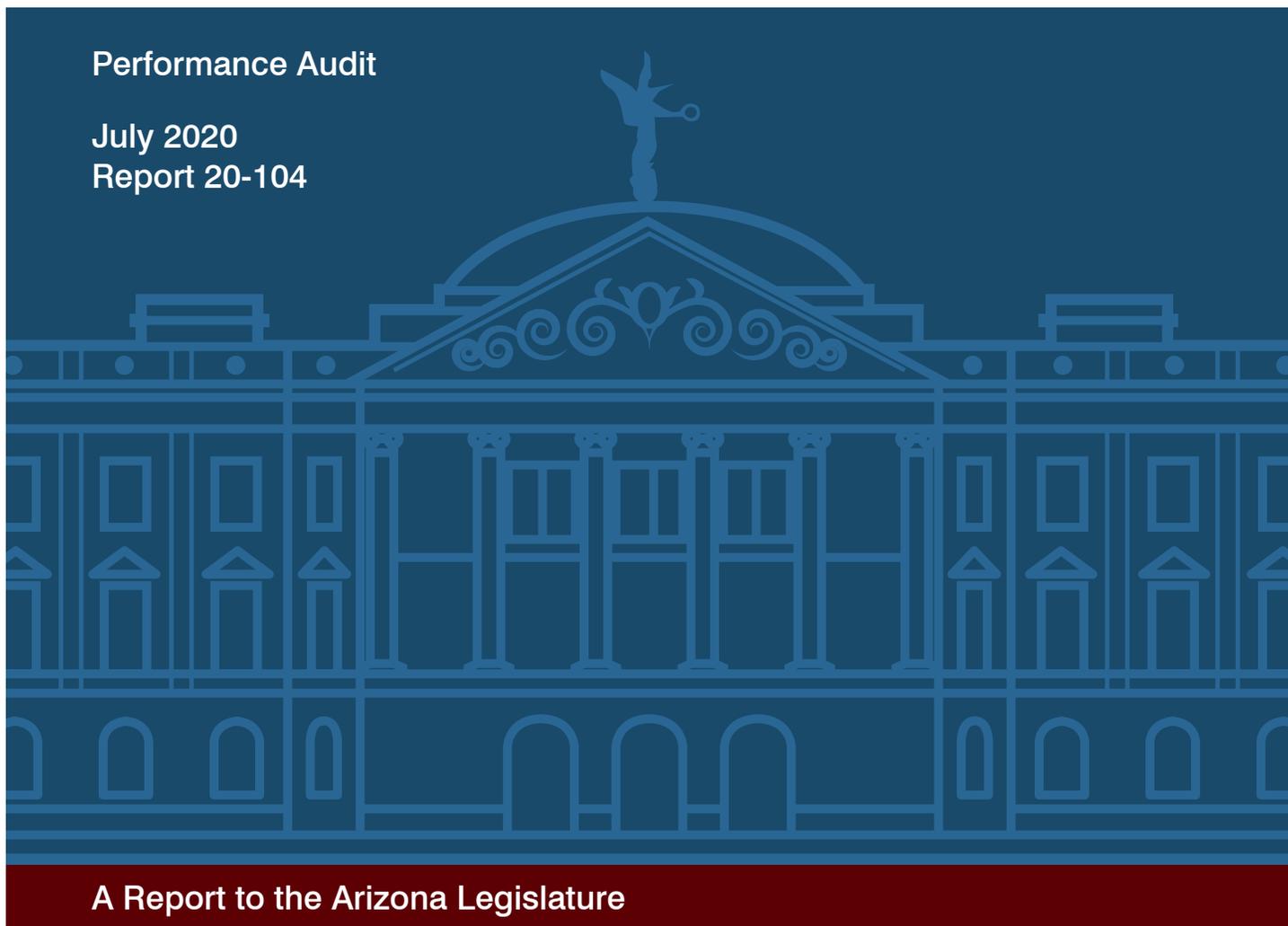


Arizona Department of Veterans' Services Military Family Relief Fund

Post-9/11 Advisory Committee and Department used Fund eligibility criteria beyond what statute set, restricting eligibility for financial assistance, and Department inadequately safeguarded Fund monies and exceeded award limits for some applicants

Performance Audit

July 2020
Report 20-104



A Report to the Arizona Legislature

Lindsey A. Perry
Auditor General





The Arizona Office of the Auditor General's mission is to provide independent and impartial information and specific recommendations to improve the operations of State and local government entities. To this end, the Office provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits and special reviews of school districts, State agencies, and the programs they administer.

The Joint Legislative Audit Committee

Representative **Anthony T. Kern**, Chair
Representative **John Allen**
Representative **Timothy M. Dunn**
Representative **Mitzi Epstein**
Representative **Jennifer Pawlik**
Representative **Rusty Bowers** (ex officio)

Senator **Rick Gray**, Vice Chair
Senator **Lupe Contreras**
Senator **Andrea Dalessandro**
Senator **David C. Farnsworth**
Senator **David Livingston**
Senator **Karen Fann** (ex officio)

Audit Staff

Dale Chapman, Director
Rosa Ellis, Manager

Catherine Dahlquist, Team Leader
Mia Buller
Eli Fabrega

Contact Information

Arizona Office of the Auditor General
2910 N. 44th St., Ste. 410
Phoenix, AZ 85018-7271

(602) 553-0333

contact@azauditor.gov

www.azauditor.gov



LINDSEY A. PERRY
AUDITOR GENERAL

ARIZONA
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

July 28, 2020

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Colonel Wanda A. Wright, Director
Arizona Department of Veterans' Services

Transmitted herewith is the Auditor General's report, *A Performance Audit of the Arizona Department of Veterans' Services—Military Family Relief Fund*. This report is in response to a September 19, 2018, 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 to provide a quick summary for your convenience.

As outlined in its response, the Arizona Department of Veterans' Services agrees with all the findings and plans to implement or implement in a different manner all the recommendations. The Post-9/11 Military Family Relief Advisory Committee has also provided a response to the report.

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

Sincerely,

Lindsey Perry, CPA, CFE
Auditor General

cc: Post-9/11 Military Family Relief Advisory Committee members

Arizona Department of Veterans' Services Military Family Relief Fund

Post-9/11 Advisory Committee and Department used Fund eligibility criteria beyond what statute set, restricting eligibility for financial assistance, and Department inadequately safeguarded Fund monies and exceeded award limits for some applicants.

Audit purpose

To assess the Fund eligibility criteria the Post-9/11 Military Family Relief Advisory Committee (Post-9/11 Advisory Committee) and Department used to approve or deny financial assistance and the Department's administration of Fund donations and awards to help safeguard public monies and ensure compliance with statutory financial assistance limits.

Key findings

- The Post-9/11 Advisory Committee established and the Department upheld Fund eligibility criteria beyond what is set forth in statute.
- The Post-9/11 Advisory Committee recommended denying and the Department denied 12 applications requesting approximately \$61,000 in financial assistance for living expenses we reviewed because of the more restrictive eligibility criteria. This more restrictive criteria may have also discouraged potential eligible applicants from seeking financial assistance.
- Department officials and the Post 9/11 Advisory Committee Chair reported that Legislative intent supports the more restrictive eligibility criteria; however, statute does not specify this intent.
- The Department had not implemented important State requirements to properly safeguard Fund monies, such as restrictively endorsing, recording, and quickly depositing all donations, increasing risk of loss or theft.
- In 5 cases we identified, the Department exceeded the statutory \$20,000 financial assistance award limit.

Key recommendations

The Department should:

- Use only the eligibility criteria established in statute, and work with the Post-9/11 Advisory Committee to revise its website, application form, bylaws, and practices to ensure only these criteria are imposed when assessing applications for financial assistance.
- Work with its legal counsel and the Legislature to clarify Fund eligibility requirements in statute, and if statute is amended, update its website, application form, bylaws, and practices accordingly.
- Implement its updated procedures for restrictively endorsing, timely depositing, and limiting access to donation checks; and properly separating duties for receiving and handling donations and making payments to vendors on applicants' behalf.
- Review and correct Fund records and identify and implement process improvements to help ensure complete and accurate program application, award, and payment information and documentation.



TABLE OF CONTENTS

Introduction	1
Finding 1: Post-9/11 Advisory Committee established and Department upheld Fund eligibility criteria beyond what statute has set, restricting eligibility for financial assistance	6
Post-9/11 Advisory Committee established eligibility criteria beyond what is set forth in statute	
Post-9/11 Advisory Committee recommended denying and Department denied more than half of applications seeking assistance with living expenses we reviewed and may have discouraged some eligible applicants	
Department and Post-9/11 Advisory Committee believe Legislature's intent was to limit Fund eligibility to more restrictive criteria	
Recommendations	
Finding 2: Department has not effectively administered Fund donations and awards, placing these public monies at risk of loss or theft and the Department granting excessive awards	9
Issue 1: Department inadequately safeguarded Fund monies, increasing the risk of loss or theft	
Department has not implemented important State requirements to protect public monies	
During audit, Department revised processes to address control weaknesses	
Recommendations	
Issue 2: Department exceeded \$20,000 Fund award limit for some applicants	
Department awarded financial assistance in excess of statutory limit	
Department's ineffective process for tracking financial assistance applications and awards contributed to overpayments	
Recommendations	
Summary of recommendations: Auditor General makes 9 recommendations to the Department	13
Appendix A: Objectives, scope, and methodology	a-1
Department response	
Post-9/11 Advisory Committee response	
Figures	
1 Fund financial assistance award process	4
2 Purpose, composition, and responsibilities of the 2 Fund advisory committees	5
3 Post-9/11 Advisory Committee's eligibility criteria that exceed what is set forth in statute	6



TABLE OF CONTENTS

Tables

1	Number and amount of financial assistance awards Fiscal years 2008 through 2019	2
2	Fund revenues, expenditures, and changes in fund balance Fiscal years 2016 through 2019	3



The Office of the Auditor General has released the first in a series of performance audit reports of the Arizona Department of Veterans' Services (Department). This report focused on the Department's administration of the Military Family Relief Fund (Fund) financial assistance program. Specifically, we assessed the eligibility criteria used by the Post-9/11 Military Family Relief Advisory Committee (Post-9/11 Advisory Committee) and Department to approve or deny financial assistance and the Department's administration of donations and awards to help safeguard public monies and ensure compliance with financial assistance statutory limits. Other Department audits will focus on the State's veterans' homes and the statutory sunset factors.

Fund established to provide financial assistance to eligible current and former service members and their families

Legislation enacted in 2007 established the Fund for the purpose of providing financial assistance to eligible current or former military service members; their immediate family members; and military widows, spouses, and minor children of military personnel who were killed or wounded in the line of duty. As shown in the textbox and discussed in this Introduction, statutory changes since the Fund's establishment have modified Fund eligibility, the Fund's structure, and the Fund's advisory committees (see pages 2-5 for additional information).

Eligible service members and their families can apply for assistance with various expenses—such as living expenses—and can receive financial assistance up to \$20,000 if they meet various statutory eligibility criteria (see textbox, page 2, for eligibility criteria).

As shown in Table 1, page 2, Department records indicate that since the Fund's establishment through fiscal year 2019, the Department has made 1,526 awards totaling nearly \$5.7 million. These awards were made to 782 families. Families can receive multiple awards over time up to a limit of \$20,000.¹ In January 2020, pursuant to Laws 2018, Ch. 258, the Department began awarding financial assistance to Pre-9/11 program applicants and had made 3 awards totaling approximately \$26,000 to these applicants at this time.

Key changes to Fund statute

2007—Fund established. Advisory Committee established to review applications for financial assistance.

2009—Statutory eligibility criteria amended to require that the service member must have been deceased, wounded, injured, or became seriously ill after September 11, 2001.

2018—Statute amended to (1) expand eligibility to service members who were deceased, wounded, injured, or became seriously ill on or before September 11, 2001; (2) split the Fund into the Pre-9/11 and Post-9/11 subaccounts; (3) established 2 separate advisory committees, the Pre- and Post-9/11 Advisory Committees, to review applications for financial assistance.

Source: Auditor General staff review of A.R.S. §41-608.04; Laws 2009, Ch. 24; and Laws 2018, Ch. 258.

¹ Discrepancies between the Department's internal records presented in Table 1 and the State accounting system records presented in Table 2 (see page 3) may be due to timing, adjustments, and errors. See Finding 2, pages 9 through 12, for additional information on the errors we identified.

Statutory eligibility criteria and eligible assistance

A current service member, former service member, or immediate family member may apply for financial assistance from the Fund. To be eligible:

- The applicant must have a financial need.
- The service member must have been deceased, wounded, injured, or become seriously ill.
- The service member must have established Arizona residency and deployment through 1 of the following:
 - Deployed from a military base in Arizona.
 - Claimed Arizona as his or her home of record at the time of deployment.
 - Served in the Arizona National Guard at the time of deployment.
- If the service member was discharged, must have received an honorable discharge.

Eligible assistance:

- Current or former service members and immediate family members may apply for living expenses and other appropriate expenses as determined by the Fund's advisory committees.
- Immediate family member may apply for living, travel, and housing expenses near the medical facility where the current or former service member is being treated.
- Spouses or dependent children of service members who died in the line of duty in a combat zone or a zone where the service member received hazardous duty pay may apply for assistance with living expenses—including mortgage, rent, and utility payments—for up to 6 months.

Source: A.R.S. §41-608.04.

Table 1
Number and amount of financial assistance awards
Fiscal years 2008 through 2019

Fiscal year	Awards granted	
	Number	Amount
2008	3	\$ 9,632
2009	2	10,090
2010	24	92,395
2011	128	399,764
2012	181	517,030
2013	130	367,216
2014	128	350,429
2015	137	438,415
2016	124	492,663
2017	227	903,780
2018	254	1,215,195
2019	188	893,360
Total	1,526	\$5,689,969

Source: Auditor General staff summary of Department records.

Department administers Fund

The Department is responsible for administering the Fund, including receiving donations, processing applications, and raising public awareness about the program. Specifically, Department Fund program staff (program staff):

- Receive donations and provide receipts to donors for tax credit purposes, up to \$1 million annual threshold**—The Fund consists of private donations that may qualify for a tax credit, grants, bequests, and any other monies received for the purpose of the Fund. The Department accepts Fund donations and provides tax credit receipts to donors on a first come, first served basis until the total amount donated to the Fund during the calendar year reaches the statutorily established \$1 million annual tax credit limit. The Department also annually reports donations and tax receipt information to the Arizona Department of Revenue. Individuals may still qualify for a charitable tax deduction for a donation to the Fund once the \$1 million annual tax credit limit is reached, but these donations would not be eligible for a tax credit.

As shown in Table 2, the State accounting system indicates that the Department received more than \$1 million in donations, grants, and bequests annually from fiscal years 2016 through 2019, and awarded between \$496,000 and \$1.2 million annually during the same time period. Statute also permits the Department to allocate up to 5 percent of donations received to administer the Fund, including hiring an employee. The Fund's fund balance has grown as donations have exceeded awards for assistance and administrative expenses. According to A.R.S. §41-608.04, the Fund is set to expire on December 31, 2026, at which time any remaining monies in the Fund will be transferred to the Department's Veterans' Donations Fund.² See Findings 1 and 2, pages 6 through 12, for our findings and recommendations related to the Department's administration of Fund donations and awards for financial assistance.

Table 2
Fund revenues, expenditures, and changes in fund balance
Fiscal years 2016 through 2019

	2016	2017	2018	2019
Revenues				
Donations	1,074,580	1,095,205	1,137,746	1,094,044
Interest income	45,497	64,988	96,474	151,354
Total revenues	1,120,076	1,160,193	1,234,220	1,245,398
Expenditures				
Awards	496,832	864,830	1,186,382	838,160
Administrative costs ¹	7,213	4,347	10,086	21,250
Total expenditures	504,045	869,177	1,196,469	859,410
Net change in fund balance	616,032	291,016	37,751	385,988
Fund balance, beginning of year	5,100,831	5,716,863	6,007,879	6,045,630
Fund balance, end of year²	5,716,863	6,007,879	6,045,630	6,431,618

¹ Administrative costs in fiscal years 2016 through 2019 included professional and outside services, other operating expenditures, noncapital equipment, and some travel. For example, statute requires the Department to obtain an annual audit of the Fund from an independent certified public accountant and to provide reasonable office space and resources for the program staff that administer the program and support the advisory committees. In 2019, as authorized by statute, the Department began using Fund monies for personal services and employee-related expenses, which accounts for the increase.

² The June 30, 2019, fund balance consisted of approximately \$63,000 in donations designated specifically for the Pre-9/11 subaccount with the remainder designated for the Post-9/11 subaccount, as required by statute.

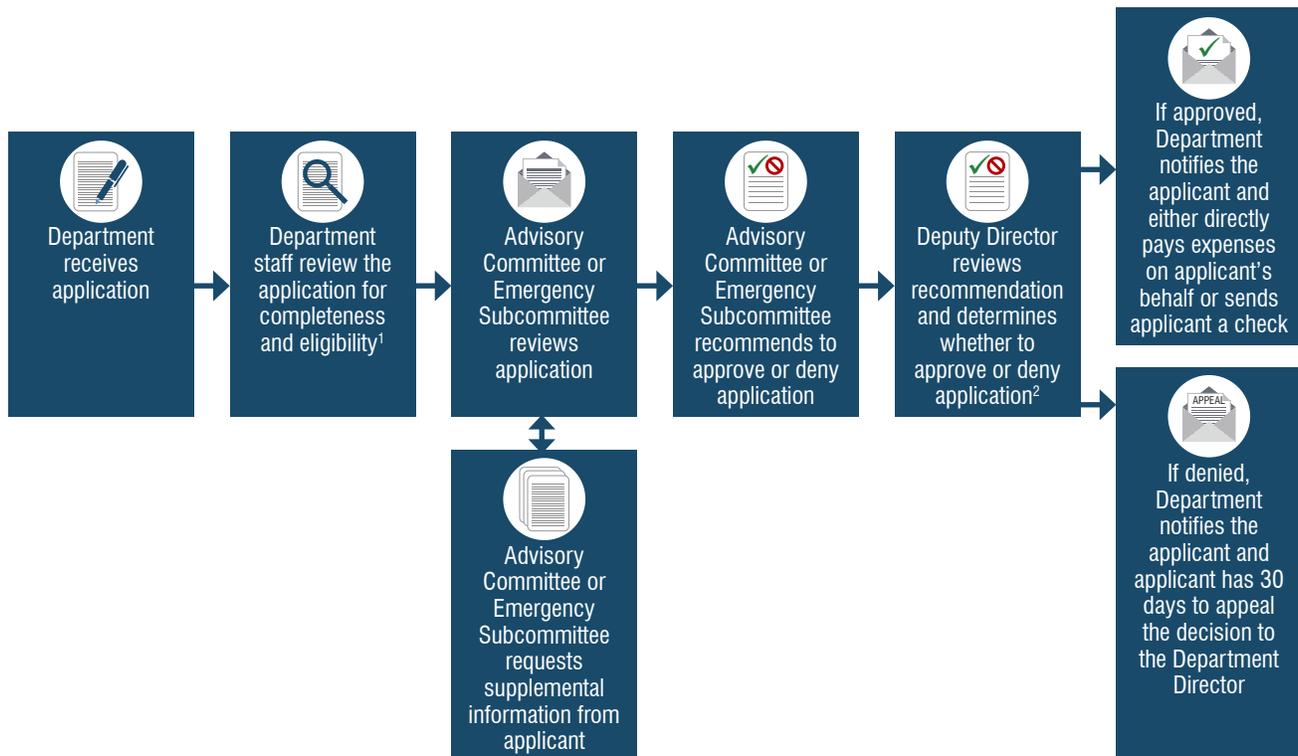
Source: Auditor General staff review of the Arizona Financial Information System *Accounting Event Transaction File* and the State of Arizona *Annual Financial Report* for fiscal years 2016 through 2019.

² Monies deposited in the Veterans' Donations Fund are used for the benefit of veterans and the construction and maintenance of the Enduring Freedom Memorial in Wesley Bolin Plaza.

In addition to expanding eligibility for financial assistance to service members who were deceased, wounded, injured, or became seriously ill on or before September 11, 2001, Laws 2018, Ch. 258, modified the Fund's structure. Specifically, the legislation established 2 separate subaccounts to differentiate between donations designated to provide assistance to either Pre- and/or Post-9/11 applicants. The legislation required that all unencumbered monies in the Fund as of August 2018 were to be transferred to the Post-9/11 subaccount. The legislation also required donors to designate which subaccount their donation should be deposited into or if the donation should be split between the 2 subaccounts. According to Department donation records, of the nearly \$1 million in donations the Department received in calendar year 2019, approximately \$163,000 was designated specifically for deposit in the Pre-9/11 subaccount.

- Process applications for assistance and determine awards**—Figure 1 shows the Department's process for receiving and reviewing applications for financial assistance, obtaining advisory committees' recommendations (see page 5 for more information on these committees), and finalizing award determinations. When an applicant has an immediate need for assistance and cannot wait for the monthly advisory committee meeting—such as to avoid an eviction or electricity shut-off—statute permits an emergency subcommittee to make an expedited recommendation of up to \$3,000.³ If the advisory committees or subcommittees require additional information to help inform their recommendation, program staff contact the applicant and table the application until the information is obtained. If the Department denies the application or approves a modified award amount, the applicant has 30 days to appeal the Department's decision.

Figure 1
Fund financial assistance award process



¹ Department staff's review includes contacting the applicant to confirm that the application was received, confirm the assistance being requested, and obtain any missing information.

² The Department Director has delegated the review of award recommendations and denials to the Deputy Director so that in instances when an applicant appeals the Department's decision, the Director can impartially review the appeal and original application materials.

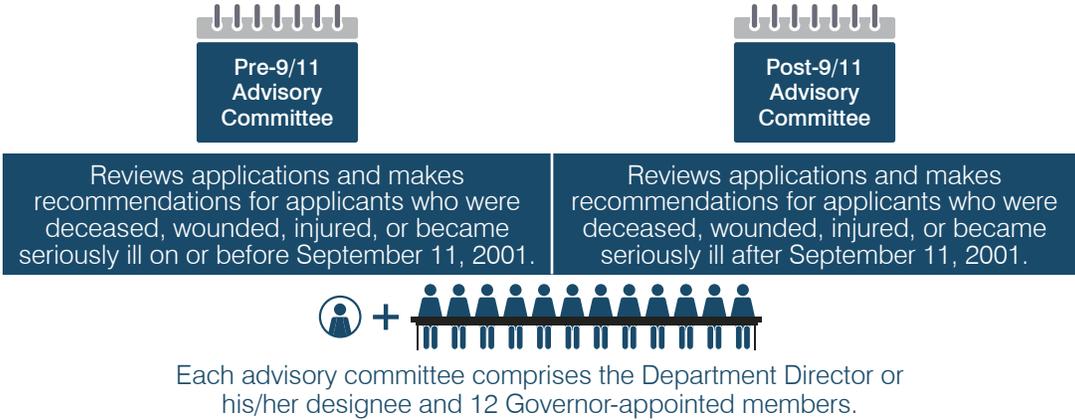
Source: Auditor General staff review of Department documents.

³ The Post-9/11 Advisory Committee's bylaws establish a lifetime limit of 1 emergency award, not to exceed the statutorily established \$3,000 limit. The Pre-9/11 Advisory Committee's bylaws do not include this lifetime limit on number of emergency awards.

Statute does not prescribe any time frames for processing applications for financial assistance and the Department has not established any internal time frames for doing so. However, the Department and advisory committees have established time frames for processing emergency applications and for an appeals process. Specifically, the Department established a 24- to 72-business hour time frame for the emergency subcommittee to review and provide an award recommendation to the Department, while the advisory committee established a 30-day time frame for applicants to file an appeal of a Department decision.

Statute established 2 advisory committees to assist the Department in awarding financial assistance to eligible current and former service members and their families (see Figure 2). These advisory committees meet monthly to review applications and make recommendations to the Department on whether to approve or deny requests for financial assistance, based on the committees' bylaws' defined approved uses for financial assistance to statutorily eligible applicants, such as rent, utilities, and car payments.

Figure 2
Purpose, composition, and responsibilities of the 2 Fund advisory committees



Each advisory committee is responsible for:

1. Establishing criteria for how the Fund monies can be used by eligible applicants.
2. Establishing and revising, as necessary, the application process.
3. Reviewing and evaluating applications and making award recommendations to the Department.
4. Making other recommendations, as necessary.

Source: Auditor General staff review of A.R.S. §41-608.04.

- **Raise public awareness about the program**—The Department posts information on its website and promotes the program through social media, public outreach events, and its partnerships with other veterans' service organizations, such as the American Legion. According to Department records, program staff engaged 6,257 individuals at 54 outreach events during calendar year 2019. These outreach events included 7 stand-downs across the State, which are typically 1- to 3-day events during which homeless and at-risk veterans receive food, clothing, and health screenings and may also receive referrals for health care, housing solutions, employment, substance use treatment, mental health counseling, and other essential services.



Post-9/11 Advisory Committee established and Department upheld Fund eligibility criteria beyond what statute has set, restricting eligibility for financial assistance

Post-9/11 Advisory Committee established eligibility criteria beyond what is set forth in statute

Statute allows eligible current and former service members and their immediate family members to apply for financial assistance with living expenses and other appropriate expenses as determined by the 2 Fund advisory committees (see textbox, page 2, for eligibility criteria and eligible financial assistance and Figure 2, page 5, for a description of the 2 Fund advisory committees). Statute does not permit the Department or the 2 Fund advisory committees to impose additional eligibility criteria that would expand or restrict who can apply for financial assistance. However, as shown in Figure 3, the Post-9/11 Advisory Committee established eligibility criteria within its bylaws that exceed what is set forth in statute. Specifically, the Post-9/11 Advisory Committee’s eligibility criteria requires an applicant to show that a combat deployment caused the applicant’s financial hardship to be eligible for financial assistance. Further, it includes a provision that the service member be deployed after September 11, 2001, to be eligible for financial assistance.

Figure 3
Post-9/11 Advisory Committee’s eligibility criteria that exceed what is set forth in statute

 Statute	 Post-9/11 Advisory Committee bylaws
The applicant must have a financial need.	The applicant must have a financial need occurring during deployment or as a result of combat deployment and to assist with transition to financial stability.
The service member must have been deployed.	The service member must have been deployed to a combat zone.
Statute does not impose a deployment date requirement.	The Committee may provide awards to an applying family if the service member of the family was deployed to a combat zone after September 11, 2001, to include non-injured service members and currently deployed service members.

Source: A.R.S.§41-608.04(I) and (J) and Post-9/11 Advisory Committee bylaws (dated 2013).

The Department's website and financial assistance application included the Post-9/11 Advisory Committee's restrictive eligibility requirement that the applicant show financial hardship was caused by a combat deployment. Based on our inquiries, as of December 2019, the Department removed the word "combat" from its description of deployment on its website and instead cites the U.S. Department of Veterans Affairs' definition of deployment as the movement of military forces. However, as of June 2020, the Department's website and financial assistance application still indicate that applicants must demonstrate that a deployment caused their current financial hardship, which is not consistent with statute.

Post-9/11 Advisory Committee recommended denying and Department denied more than half of applications seeking assistance with living expenses we reviewed and may have discouraged some eligible applicants

The Post-9/11 Advisory Committee recommended denying and the Department denied 12 of 21 applications we reviewed because of the more restrictive eligibility criteria, which requested approximately \$61,000 in financial assistance for eligible living expenses between July 2016 and October 2019.^{4,5} Specifically, the Post-9/11 Advisory Committee recommended denying and the Department denied 11 of these applications because the financial hardship was not caused by a deployment, combat or otherwise, and 1 application because the applicant's deployment occurred prior to September 11, 2001.

Further, the Post-9/11 Advisory Committee's more restrictive eligibility requirements may have discouraged potential eligible applicants from seeking financial assistance. Individuals reviewing the Department's website or completing the application form may have chosen not to apply because they could not complete the application's prompt to **"Explain how your military deployment interferes with your ability to meet your current financial obligations."**

Finally, as shown in Table 2 (see page 3), Fund donations have exceeded financial assistance awards and the Fund's fund balance has grown from \$5.7 million in fiscal year 2016 to \$6.4 million in fiscal year 2019. The Post-9/11 Advisory Committee's more restrictive eligibility requirements may have contributed to this growth due to eligible applicants either being denied or discouraged from applying for financial assistance.

Department and Post-9/11 Advisory Committee believe Legislature's intent was to limit Fund eligibility to more restrictive criteria

Department officials and the Post-9/11 Advisory Committee Chair reported that they believe it was the Legislature's intent that Fund monies be used to assist service members and their families whose financial hardships were caused by the service member's military deployment, combat or otherwise. Although statute does not specify this intent, the Post-9/11 Advisory Committee adopted the more restrictive eligibility criteria. Department officials further indicated that they do not believe the Legislature intended that the Fund provide financial assistance for hardships resulting from circumstances other than a service member's military deployment and indicated that statutory changes to clarify Fund eligibility criteria would be helpful for it and the Post-9/11 Advisory Committee's members.

⁴ We reviewed the Post-9/11 Advisory Committee's meeting minutes and Department internal award records for July 2016 through October 2019 and determined that the Post-9/11 Advisory Committee reviewed 845 applications for financial assistance during this time frame. We judgmentally selected for further review the 21 applications that were initially recommended for denial or were denied because the applicant failed to demonstrate their financial hardship was caused by their deployment, combat or otherwise. We determined that 12 of these 21 applications were denied because the Post-9/11 Advisory Committee imposed and the Department upheld more restrictive eligibility criteria than what is established in statute, 4 were denied for reasons consistent with statute, and 5 were ultimately awarded financial assistance.

⁵ The Pre-9/11 Advisory Committee did not start awarding assistance until January 2020, and therefore, our review of 2016-2019 denials did not include any applications from this Fund Advisory Committee.

In addition, the Post-9/11 Advisory Committee has not updated its bylaws to reflect 2 statutory changes that decreased the Fund eligibility restrictions. First, in 2012, the Legislature eliminated the statutory eligibility requirement related to the service member's date of service. Specifically, Laws 2012, Ch. 241, repealed the requirement that the service member needed to be deployed or entered active military service after September 11, 2001. However, the Post-9/11 Advisory Committee's bylaws still require deployment post September 11, 2001. Second, in 2015, the Legislature repealed the Department's and Post-9/11 Advisory Committee's ability to award financial assistance to an applying family if the service member was deployed to a combat zone after September 11, 2001. However, the Post-9/11 Advisory Committee has continued to require combat deployment to be eligible for financial assistance.

Finally, although our 2011 audit report recommended that the Committee establish additional criteria to prevent inconsistent Fund award decisions, such as the types of "other expenses" that may qualify for financial assistance and the factors that should be considered during the decision-making process, we did not recommend that the Department or Post-9/11 Advisory Committee establish additional eligibility criteria inconsistent with statute (see Auditor General Report No. 11-09).

Recommendations

The Department should:

1. Impose on applicants and eligible expenses only the statutorily established eligibility criteria and work with the Post-9/11 Advisory Committee to revise its website, application form, bylaws, and practices to ensure only the statutorily established eligibility criteria are imposed when assessing applications for financial assistance.
2. Work with its legal counsel and the Legislature to clarify in statute the eligibility requirements applicants must meet to be eligible to receive financial assistance.
3. If statute is amended, update its website, application form, bylaws, and practices, accordingly.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement or implement in a different manner the recommendations.



Department has not effectively administered Fund donations and awards, placing these public monies at risk of loss or theft and the Department granting excessive awards

Effective internal controls help to ensure that an entity will achieve its mission and objectives, but the Department lacks important controls over the administration of the Fund (see textbox for definition of internal control). As previously shown in Table 2 (see page 3), the Department has received more than \$1 million in Fund donations annually from fiscal years 2016 through 2019 and awarded between approximately \$497,000 and \$1.2 million in financial assistance annually for the benefit of the applicants during this same time period. However, we identified internal control deficiencies regarding the Department’s administration of these Fund donations and financial assistance awards that (1) expose the Department to an increased risk of loss or theft of donations; and (2) resulted in the Department exceeding the \$20,000 assistance award limit in some cases.

Internal control—An integral component of an organization’s management that should be designed, implemented, and operating effectively to provide reasonable assurance that the following objectives are being achieved:

- Effectiveness and efficiency of operations.
- Reliability of financial and program reporting.
- Compliance with applicable laws and regulations.

Internal control serves as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

Source: U. S. Government Accountability Office. (2014). *Standards for internal control in the federal government*. Washington, DC. Retrieved 02/10/2020 from <https://www.gao.gov/assets/670/665712.pdf>.

Issue 1: Department inadequately safeguarded Fund monies, increasing the risk of loss or theft

Department has not implemented important State requirements to protect public monies

The *State of Arizona Accounting Manual (SAAM)* contains the State’s central accounting policies and procedures and classifies Fund donations as public monies that should be safeguarded. The SAAM specifies several requirements for handling public monies that all State agencies are required to follow in order to properly safeguard public monies and reduce the risk of loss or theft. We found that the Department lacked some important cash-handling controls required by the SAAM to help ensure proper handling and safeguarding of Fund donations. The Department’s inadequate procedures exposed it to an increased risk of loss or theft, although we did not identify any instances. Specifically:

- **Department finance staff did not restrictively endorse, record, and quickly deposit all donations received**—The SAAM requires that all checks must be restrictively endorsed on the day received, deposited as soon as practical, and recorded on the day received and that access to cash and checks must be limited to as few employees as practicable. However, as of October 2019, finance staff did not restrictively endorse, record, and deposit some donation checks as follows:

- If information was missing from the donation form or check—such as the donor’s social security number—finance staff responsible for opening the mail forwarded the unendorsed check and donation form to program staff to contact the donor to obtain the missing information. In cases where the donor could not be reached, program staff returned the donor’s unendorsed check by mail. Department records indicate that during calendar years 2018 and 2019, the Department returned 384 checks totaling \$122,806 because of missing information.
- If donations reached the \$1 million annual tax credit threshold, finance staff responsible for opening the mail forwarded the unendorsed check and donation form to program staff to return the unendorsed check to the donor. In calendar year 2018, the Department returned 115 checks totaling \$35,363 received after the \$1 million dollar threshold was met.⁶
- **Department did not separate duties between its program staff so that no one person had the ability to complete transactions without independent review**—The SAAM requires agencies to assign duties related to receiving cash, making payments, and performing any related recordkeeping to different staff. Separating these responsibilities or ensuring they are reviewed by another employee helps reduce the risk of errors or fraud. At the time of our review and consistent with these requirements, finance staff were responsible for (1) recording donation receipts in the State accounting system, (2) preparing and making deposits, (3) and reviewing that the applicant and vendor information matched the information entered into the State accounting system by program staff.

However, as of October 2019, the Department had not separated other duties related to administering Fund donations and financial assistance awards. Specifically, the same program staff person was responsible for handling, recording, obtaining missing information, and returning donation checks. In addition, this program staff person was responsible for administering and preparing records of financial assistance awards, including (1) recording applicant information, (2) preparing advisory committee meeting materials, (3) recording advisory committee award recommendations, (4) recording Department award determinations, (5) preparing notification letters to applicants stating whether an application had been approved or denied, and (6) remitting payments to vendors on behalf of applicants, including to landlords or utility companies. Because responsibilities were not separated or adequately reviewed by another employee, the Department increased its risk that a program staff person could falsify records and issue payments to unauthorized or fictional payees.

- **Department did not reconcile its internal records to State accounting records to help ensure the accuracy and completeness of records**—The SAAM requires agencies to reconcile relevant activity, including reconciling internal accounting records to State accounting records, at least once per month. Further, all official accounting reports must be prepared or checked by persons other than those responsible for the operation for which the report was prepared. Regularly performing these activities helps State agencies timely identify and resolve anomalies and errors, and helps ensure records are complete and accurate. However, as of October 2019, finance staff had not reconciled Department internal donation and award records to State accounting records since March 2018. Additionally, the program staff person that prepared these internal donation and award records was responsible for self-reviewing the information for accuracy and completeness. A secondary review conducted by another staff person was not performed.

According to the Department, these controls were not implemented because the program’s procedures do not address separation of duties, program staff were not aware of SAAM requirements, and the Department had not assigned anyone to perform monthly reconciliations of Fund donation and financial assistance award records. Additionally, the Department reported that a former Department Deputy Director directed program staff to return original, unendorsed checks when donations reached the \$1 million tax credit limit, and the Department had not since reviewed that policy decision.

⁶ In calendar year 2018, the \$1 million threshold was met on August 27, 2018.

During audit, Department revised processes to address control weaknesses

After we notified the Department of program staff’s practice to not immediately restrictively endorse and timely deposit checks, the Department revised its processes as of October and December 2019 to require that finance staff responsible for opening the mail immediately restrictively endorse any donation checks received and review them for missing information. To limit access to donation checks that are missing information, finance staff are required to retain the endorsed check and send a copy of the check and donation form to program staff to obtain the missing information. If program staff cannot obtain the missing information within 7 calendar days, finance staff are required to deposit the check into a Fund holding account until the missing information is provided or a refund request is made by the donor or program staff. Additionally, as of December 2019, the Department revised its procedures to separate duties for receiving and handling donations and making payments to vendors. Finally, as of January 2020, the Department had filled its vacant compliance auditor position who will be responsible for performing monthly reconciliations of the Department’s Fund records and State accounting system records.

Recommendations

The Department should:

4. Implement its updated procedures for restrictively endorsing, timely depositing, and limiting access to donation checks.
5. Implement its updated procedures for properly separating duties for receiving and handling donations and making payments to vendors on behalf of applicants.
6. Properly separate duties for maintaining applicant and award records, including ensuring that another Department employee or supervisor reviews the records.
7. Perform monthly reconciliations of the Department’s internal donation and award records to State accounting system records, including ensuring that another Department employee or supervisor reviews and approves the reconciliation.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendations.

Issue 2: Department exceeded \$20,000 Fund award limit for some applicants

Department awarded financial assistance in excess of statutory limit

As discussed in the Introduction (see page 1), statute limits eligible current or former service members and their families to receive up to \$20,000 in financial assistance. However, we found 7 instances where Department award-tracking records indicated that the Department may have awarded monies in excess of the \$20,000 limit. Based on our further review of available State accounting records, applicant files, and the Department’s internal award and payment

Department exceeded the \$20,000 limit in 5 cases

	Adhered to limit	Total assistance awarded
Applicant #1	✘	\$22,466
Applicant #2	✘	21,401
Applicant #3	✘	20,754
Applicant #4	✘	20,559
Applicant #5	✘	20,005
Applicant #6	✔	20,000
Applicant #7	✔	15,323

tracking records, we determined, and the Department confirmed, that the Department exceeded the \$20,000 limit in 5 of these 7 instances, totaling \$5,185.⁷

Department's ineffective process for tracking financial assistance applications and awards contributed to overpayments

The Department's cumbersome process for documenting and tracking financial assistance applications and awards contributed to the overpayments we identified. Specifically, program staff use multiple forms and spreadsheets, rather than a single record, to document and track the amount of financial assistance requested by applicants, advisory committee and emergency subcommittee recommendations, approved awards, and payments made to vendors on behalf of applicants. This has required program staff to enter award, payment, and other program and/or applicant information into multiple documents. However, our review of program documentation, including all available documentation for the 7 applicants/awards involving potential overpayments, identified multiple instances of incomplete, inaccurate, and/or duplicative application and award information, including:

- Inaccurate award calculations, missing information, such as applicants' first and last names and advisory committee decisions, and incomplete entries in the Department's award-tracking records. For 4 of the overpayments we identified, Department documentation did not include all monies that the 4 applicants had been awarded and thus, program staff did not have information indicating that the Department had exceeded the \$20,000 limit for these 4 applicants.
- Applicants with multiple files and identification numbers because program staff were unaware of previous applications submitted by the same applicant and erroneously assigned the same applicant different unique identification numbers or transposed applicants' names (e.g., separate files for John Doe and Doe John, even though this is the same individual). For 1 of the overpayments we identified, the applicant's awards were recorded under 2 different names in the Department's documentation.
- Typographical errors in the award notification letters sent to applicants, including incorrect names, award amounts, and dates, which may have created confusion for applicants and program staff.

Best practices for effective internal control recommend that entities should establish relevant and reliable information systems to track operations and compliance with applicable requirements to help ensure that decisions are based on quality information that is complete and accurate.⁸

Recommendations

The Department should:

8. Review existing Fund records and documentation to identify and correct incomplete, inaccurate, and duplicative information.
9. Identify and implement process improvements to help ensure complete and accurate program application, award, and payment information and documentation, including developing and implementing associated policies and procedures, and training staff, as appropriate.

Department response: As outlined in its [response](#), the Department agrees with the finding and will implement the recommendations.

⁷ In 1 of these instances, the Department would not have exceeded the limit if the original vendor had provided the required services to the applicant and accepted the Department's payment.

⁸ U. S. Government Accountability Office. (2014). *Standards for internal control in the federal government*. Washington, DC. Retrieved 02/10/2020 from <https://www.gao.gov/assets/670/665712.pdf>.



SUMMARY OF RECOMMENDATIONS

Auditor General makes 9 recommendations to the Department

The Department should:

1. Impose on applicants and eligible expenses only the statutorily established eligibility criteria and work with the Post-9/11 Advisory Committee to revise its website, application form, bylaws, and practices to ensure only the statutorily established eligibility criteria are imposed when assessing applications for financial assistance (see Finding 1, pages 6 through 8, for more information).
2. Work with its legal counsel and the Legislature to clarify in statute the eligibility requirements applicants must meet to be eligible to receive financial assistance (see Finding 1, pages 6 through 8, for more information).
3. If statute is amended, update its website, application form, bylaws, and practices, accordingly (see Finding 1, pages 6 through 8, for more information).
4. Implement its updated procedures for restrictively endorsing, timely depositing, and limiting access to donation checks (see Finding 2, pages 9 through 11, for more information).
5. Implement its updated procedures for properly separating duties for receiving and handling donations and making payments to vendors on behalf of applicants (see Finding 2, pages 9 through 11, for more information).
6. Properly separate duties for maintaining applicant and award records, including ensuring that another Department employee or supervisor reviews the records (see Finding 2, pages 9 through 11, for more information).
7. Perform monthly reconciliations of the Department's internal donation and award records to State accounting system records, including ensuring that another Department employee or supervisor reviews and approves the reconciliation (see Finding 2, pages 9 through 11, for more information).
8. Review existing Fund records and documentation to identify and correct incomplete, inaccurate, and duplicative information (see Finding 2, pages 11 through 12, for more information).
9. Identify and implement process improvements to help ensure complete and accurate program application, award, and payment information and documentation, including developing and implementing associated policies and procedures, and training staff, as appropriate (see Finding 2, pages 11 through 12, for more information).



Objectives, scope, and methodology

The Office of the Auditor General has conducted this performance audit of the Department pursuant to a September 19, 2018, resolution of the Joint Legislative Audit Committee. The audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq. This report is the first in a series of reports on the Department and addresses the Department's administration of the Military Family Relief Fund (Fund).

We used various methods to study the issues addressed in this performance audit. These methods included reviewing applicable statutes, session laws, and a Department substantive policy statement; the Pre- and Post-9/11 Advisory Committees' bylaws; the Department's internal donation and award-tracking records, including applicant files, award approval and denial notification letters, and payment information; and information on the Department's website about the Fund financial assistance program, such as advisory committee meeting minutes, application form and process, and donation information. We also interviewed Department management, Fund program staff, Department finance office staff, and the Post-9/11 Advisory Committee Chairman. In addition, we used the following specific methods to meet the audit objectives:

- To assess the Department's and Post-9/11 Advisory Committee's compliance with statutory eligibility criteria for awarding Fund financial assistance, we reviewed the Post-9/11 Advisory Committee's meeting minutes, the Department's records of emergency subcommittee decisions, and Department internal award records for July 2016 through October 2019 and determined that the Post-9/11 Advisory Committee reviewed 845 applications for financial assistance during this time frame. We judgmentally selected for further review the 21 applications that were initially recommended for denial or were denied because the applicant did not demonstrate their financial hardship was caused by their deployment, combat or otherwise.⁹ We reviewed information in these 21 applications and the Department's internal award-tracking records to assess whether these applicants were ultimately awarded financial assistance, denied for reasons consistent with statute, or denied for reasons beyond what is permitted by statute. We also reviewed the Department's website, financial assistance application form, and Fund donation form to determine if the statutory eligibility criteria were accurately presented.
- To assess the Department's administration of the Fund, we reviewed statutes, the *State of Arizona Accounting Manual*, the Department's procedures, the Department's internal donation and award-tracking records, and State accounting records.
- To obtain information for the Introduction, we analyzed Department records for financial assistance awards made to applicants between fiscal years 2008 and 2019 and donations to the Pre- and Post-9/11 Fund subaccounts in calendar year 2019. In addition, we compiled and analyzed unaudited information from the Arizona Financial Information System *Accounting Event Transaction File* and the *State of Arizona Annual Financial Report* for fiscal years 2016 through 2019. We also analyzed the Department's records for outreach events attended by Fund program staff in calendar year 2019.
- Our work on internal controls, including information system controls, involved reviewing Fund procedures, interviewing Department staff, and, where applicable, testing the Department's compliance with the

⁹ At the time of our review, the Pre-9/11 financial assistance program had not yet begun accepting and evaluating applications. Therefore, our test work did not include Pre-9/11 applicants.

requirements outlined in statute and the *State of Arizona Accounting Manual*. Our work included reviewing the following components and associated principles of internal control:

- Control environment including Department oversight of the Fund's internal control system and achievement of the Fund's objectives.
- Control activities including the design of control activities and information systems used and maintenance of accurate Fund administration records.
- Information and communication related to the use of quality information.

We report our conclusions on these internal and information system controls in Findings 1 and 2 (see pages 6 through 12).

We selected our audit samples to provide sufficient evidence to support our findings, conclusions, and recommendations. Unless otherwise noted, the results of our testing using these samples were not intended to be projected to the entire population.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We express our appreciation to the Department Director and staff, and the Chairmen of the Pre- and Post-9/11 Advisory Committees for their cooperation and assistance throughout the audit.

DEPARTMENT RESPONSE



DOUGLAS A. DUCEY
GOVERNOR

STATE OF ARIZONA
ARIZONA DEPARTMENT OF VETERANS' SERVICES
OFFICE OF THE DIRECTOR
3839 N THIRD STREET
PHOENIX, AZ 85012
Tel 602.255.3373 ♦ Fax 602.255.1038
www.azdvs.gov



WANDA A. WRIGHT
DIRECTOR

July 10, 2020

Lindsey Perry, Auditor General
State of Arizona Office of the Auditor General
2910 N 44th Street, Ste. 410
Phoenix, AZ 85018

Dear Ms. Perry:

Transmitted is the Arizona Department of Veterans' Services reply to the sunset audit findings of the Arizona Military Family Relief Fund. The Department agrees with the findings, and is amenable to discussing what future efforts will be needed to revise the language in A.R.S.41-608.04. As outlined in the attached response, the Department has taken action to address each recommendation in Finding 2.

The Department appreciates the Auditor's recommendations as we continually improve our processes to better serve Arizona's veterans.

Sincerely,

Wanda A. Wright
Director

Finding 1: Post-9/11 Advisory Committee established and Department upheld Fund eligibility criteria beyond what statute has set, restricting eligibility for financial assistance

Recommendation 1: The Department should impose on applicants and eligible expenses only the statutorily-established eligibility criteria and work with the Post-9/11 Advisory Committee to revise its website, application form, bylaws, and practices to ensure only the statutorily-established eligibility criteria are imposed when assessing applications for financial assistance.

Department Response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: The Department acknowledges that A.R.S.41-608.04 utilizes ambiguous language that makes it difficult to interpret. Further, the Department agrees interpretation of the statute could mean that while the committee is statutorily obligated to establish criteria for the use of monies, it does not implicitly grant the committee powers to determine eligibility requirements for the applicants which are outlined in the statute. Therefore, if taken literally and not contemplating prior precedence set by the MFRF Advisory Committee, it is possible that any veteran pre or post 9/11 experiencing financial need and meeting the following independent eligibility criteria: is deceased or wounded, injured or became seriously ill before or after 9/11/2001; has either deployed from a military base in Arizona, claimed Arizona as home of record, or been a member of the Arizona National Guard at time of deployment and discharged under honorable conditions, the applicant would be eligible for monies in this fund. However, the statute is not clear that the financial need must occur as a result of an incident which occurred as a result of military service. Therefore, if eligibility is met, a veteran could apply for monies based on financial need extraneous to their service. This presents serious issues for the Department. Any veteran that meets the eligibility criteria could apply for MFRF regardless of why the veteran is experiencing financial need. The Department does not believe this is in keeping with the intent of the statute. The Department is amenable to discussing with the Arizona State Legislature, MFRF Advisory Committees and Veteran Service Organizations what future efforts will be needed to revise the language of the statute to ensure any ambiguities are clearly defined.

Recommendation 2: The Department should work with its legal counsel and the Legislature to clarify in statute the eligibility requirements applicants must meet to be eligible to receive financial assistance.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department is amenable to discussing what future efforts will be needed to revise the language of the statute to ensure any ambiguities are clearly defined.

Recommendation 3: The Department should, if statute is amended, update its website, application form, bylaws, and practices, accordingly.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: If the statute is amended, the Department will update its website, application form, bylaws and practices.

Finding 2: Department has not effectively administered Fund donations and awards, placing these public monies at risk of loss or theft and the Department granting excessive awards

Recommendation 4: The Department should implement its updated procedures for restrictively endorsing, timely depositing, and limiting access to donation checks.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department has taken action to follow SAAM guidelines.

Recommendation 5: The Department should implement its updated procedures for properly separating duties for receiving and handling donations and making payments to vendors on behalf of applicants.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department has taken action to follow SAAM guidelines. MFRF and Finance staff have separated duties for receiving and handling donations, plus making payments to vendors on behalf of the applicants.

Recommendation 6: The Department should properly separate duties for maintaining applicant and award records, including ensuring that another Department employee or supervisor reviews the records.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department has taken action to create internal controls for separating duties among MFRF staff.

Recommendation 7: The Department should perform monthly reconciliations of the Department's internal donation and award records to State accounting system records, including ensuring that another Department employee or supervisor reviews and approves the reconciliation.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department has taken action to follow SAAM guidelines.

Recommendation 8: The Department should review existing Fund records and documentation to identify and correct incomplete, inaccurate, and duplicative information.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department has taken action to include monthly Fund record reviews as part of internal controls for the MFRF program. The Department has also purchased software that will assist in keeping better documentation of applicants to ensure accurate, complete files.

Recommendation 9: The Department should identify and implement process improvements to help ensure complete and accurate program application, award, and payment information and documentation, including developing and implementing associated policies and procedures, and training staff, as appropriate.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The Department is very familiar with the Arizona Management System (AMS) and is always looking to continuously improve our processes. A training plan for all MFRF staff has been implemented which includes AMS training to support continuous improvement. The Department uses continuous improvement tools, such as problem solving, value stream mapping, standardized work, metric development and continuous monitoring to ensure information is accurate.

POST-9/11 ADVISORY COMMITTEE RESPONSE

Military Family Relief Fund Post-9/11 Advisory Committee
Arizona Department of Veterans' Services
3839 N. 3rd St.
Phoenix, AZ 85012

Dear Ms. Perry,

As I have explained, the committee has consistently maintained an applicant has to have served in a DoD designated "imminent danger area" after 9/11 and as a result of that service he/she or their family now suffer financial hardship. The list of "imminent danger areas" as recorded on the DD-214 is broad and covers wide areas around the world, and includes places such as Diego Garcia. The committee considers those areas, including Iraq and Afghanistan when evaluating an applicant. The criteria used are based on the intent of the lawmakers who established the MFRF and the intent was made clear to us by those lawmakers in several meetings. I would note the timing of the initial legislation was after the deployment of the regular units of the Army, Navy, Marines and Air Force as well as activation of the National Guard and Reserve units, in support of post 9/11 operations. The activation of the National Guard and Reserve units had a major impact on their finances and the legislators intended to help those who served in those combat operations and suffered financially as a result. A significant number of our applications come from former members of those Guard and Reserve units. There was never an intent to provide financial assistance to anyone who deployed out of the country not supporting combat operations. Over the past year I contacted some of those legislators, active and retired to confirm their original intent.

Based on this draft report as well as previous findings, it became clear the legislation fell short in clarity of the intent. I have spoken with a few legislators about clarifying the statute, and I know you are aware a bill was introduced by a State Senator in this year's session to make clear the intent is to assist post 9/11 MFRF applicants who had to have served in an imminent danger area. The bill was moving through the process when this year's session was truncated by the COVID pandemic and quite a few pending bills died in session. I hope the bill will be resurrected in the next session to clear up the shortfall in the MFRF statute.

Regarding the committee by-laws, I worked through an edit earlier in the year, but suspended that effort until the amendment to the MFRF statute was signed by the Governor so appropriate changes could then be made.

My hope is the bill clarifying the post 9/11 MFRF intent is signed next session.

Regards,

Randell S. Meyer, Col, USAF (ret)
Chairman, Post 9/11 MFRF

