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**Department of Military and Veterans'
Affairs
Selected Programs**

July 1, 1997 to April 29, 1999

**Richard L. Fair
State Auditor**

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Enclosed is our report on the audit of the Department of Military and Veterans' Affairs - Selected Programs for the period July 1, 1997 to April 29, 1999.

If you would like a personal briefing, please call me at (609) 292-3700.

Thomas R. Meseroll
Technical Director
June 4, 1999

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Department of Military and Veterans' Affairs Selected Programs

Scope

We have completed an audit of selected programs of the Department of Military and Veterans' Affairs (department) for the period July 1, 1997 to April 29, 1999. The programs included in our audit were Central Operations, Veterans Program Support, and National Guard Programs Support. Our audit included financial activities in the state's General Fund and the Korean Veterans Memorial Fund.

The prime responsibilities of the department are to provide care and services to New Jersey veterans and to support existing national guard programs. Annual expenditures and revenue for the selected programs in our scope were \$31 million and \$14 million, respectively. The major component of revenue is funds from the U.S. Department of Defense to support national guard facilities within the state.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the agency's programs, were reasonable, and were recorded properly in the state accounting system. We also tested for resolution of significant conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the agency. Provisions that we considered significant were documented and compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed

agency personnel to obtain an understanding of the programs and internal control.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Transactions were judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the agency and walked through the system to determine if the corrective action was effective.

Conclusions

We found that financial transactions were related to the agency's programs, were reasonable, and were recorded properly in the state accounting system. In making this determination, we noted certain internal control weaknesses relating to purchasing and program monitoring. We also found that the department had resolved the significant issues noted in our prior report, with the exception of Veterans Transportation program monitoring, Catastrophic Entitlement eligibility reviews, and fixed assets. These issues have been updated and restated in our current report.

Cemetery Expenditures

Cemetery expenditures should be reviewed for reasonableness.

The Brigadier General William C. Doyle Veterans Memorial Cemetery provides eligible veteran residents the opportunity to be interred in a state-operated cemetery dedicated to them. Our review of the expenditures incurred by the cemetery administration revealed unnecessary expenditures in excess of \$20,000.

The department spent \$17,000 in March 1998 for fiber optic and data cabling to connect a computer in the cemetery's maintenance building to its business office. This expenditure was made without a written plan justifying the need and providing a time frame. As of March 1999, no computer had been purchased for the maintenance building, which raises doubt as to the need for the cabling.

Cemetery employees, who are civilian staff, were reimbursed for clothing, boots, and dry cleaning expenses without an approved department policy. We identified \$2770 of such expenses during our audit period.

Medical supplies totaling \$1900 were purchased for the cemetery staff of approximately 20. Supplies such as aspirin, cough drops, antacids, and first aid ointment are replenished at the vendor's discretion on a monthly basis. These expenditures appear to be unreasonable when compared to the consumption of the items by the rest of the department employees.

The cemetery administration and the department's management did not question the reasonableness of these purchases, thus allowing them to be incurred.

Recommendation

We recommend that the cemetery administration and department management exercise oversight control when reviewing future purchases for reasonableness. The practice of providing clothing reimbursement and medical supplies to civilian staff should be discontinued.

Auditee's Response

Department management will increase its monitoring and oversight of cemetery expenditures to include verification of proper documentation and substantia-

tion of purchase requests. The department is in the process of establishing guidelines and procedures for the issuance and maintenance of required uniforms and clothing.



Veterans Programs

Monitoring of veterans assistance programs should be improved.

The department is responsible for administering various veterans' grants-in-aid and assistance programs. The Veterans Transportation program provides transportation services for eligible veterans for scheduled and emergency medical care. Program expenditures were \$434,000 during our audit period. The Catastrophic Entitlement program provides veterans or their surviving spouses a lifetime compensation for certain disabilities. Monthly checks are sent to eligible recipients by the Division of Pensions. Program expenditures were \$508,000 during our audit period. Our review noted the following weaknesses.

The Veterans Transportation program has established a payment process that is unnecessarily complex and time-consuming. Contracts with county agencies establish the method of payment and set a contract ceiling. There were 11 different methods of payment for the 17 fiscal year 1999 contracts. These methods included hourly rates, cost reimbursement, zone rates, in county/out county rates, per mile rates, and one way rates. The counties must submit monthly invoices and supporting documents which list every veteran transported and every trip. The department reviews the invoices for accuracy and compliance with contract terms. Our test of Veterans Transportation payments indicated that the time spent reviewing these invoices is ineffective and inefficient. The incorrect amount was paid for 17 of 27 invoices tested, either due to noncompliance with contract terms or calculation errors. None of these errors had been detected by department personnel. Although the amount of the errors was immaterial, it is possible that the contract ceilings would be reached prematurely, resulting in the discontinuation of transportation services before year-end.

The department is supposed to conduct two monitoring visits per county in order to review eligibility verification procedures and services. We could find no documentation that such visits were performed by the department. The lack of monitoring makes it possible that ineligible participants have received services and that providers have been overpaid.

As noted in our two previous reports, the department does not maintain complete beneficiary files for the Catastrophic Entitlement program. A DD-214 (Separation of Duty form) is required to establish initial eligibility. Benefits terminate upon the death of the veteran or surviving spouse or when the recipient moves from the state for reasons other than for health or employment. We could not find DD-214's for 9 out of 79 beneficiary files tested. In addition, the files for 25 out of 41 out-of-state recipients tested did not have any documentation of health or employment reasons for their move. These beneficiary files are incomplete because annual eligibility verifications required by program procedures have not been performed and documented. As a result, the department cannot determine the continued eligibility of recipients and the propriety of benefits paid.

Recommendation

We recommend that the department grant the transportation providers an annual lump sum payment to provide transportation services to eligible veterans. Monitoring the providers to ensure that services are being provided and eligibility is being verified would remain the department's responsibility. The department should also perform annual eligibility verifications and maintain complete beneficiary files for recipients of Catastrophic Entitlement funds.

Auditee's Response

The department will initiate a comprehensive review of veterans transportation third party contracts with the intention of developing improved methodology for monitoring contract compliance and simplifying payment of services. The department will perform annual eligibility verifications and maintain complete beneficiary files for recipients of Catastrophic Entitlement programs.

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ChalleNGe Youth Program

Department procedures regarding post graduation stipends should be enforced.

The National Guard challeNGe Youth Program is a 22-week residential program located at Fort Dix for 16 to 18 year old youths who are high school dropouts. The goal of the program is to give eligible students a second chance at life through education, life skills and leadership training, and employment training.

Upon graduation, the students are eligible to receive a post graduation stipend to pay for education or job-related expenses incurred in the next year. Program procedures issued by the department require that graduates submit evidence of enrollment in a college, vocational or technical school or initial job-related expenses in order to receive their stipend. We reviewed 29 stipend payments totaling \$16,910 and found no evidence that receipts for expenses incurred were provided to the department fiscal office to justify payment of the stipends. Total stipends requiring receipts during our audit period were \$165,000. Because fiscal management approved payments without the required receipts, it was not possible to determine whether the stipends were provided for appropriate uses.

Post graduation stipends totaling \$300,000 have not been spent from fiscal years 1996, 1997, and 1998 (representing graduation classes three through seven). According to program procedures, these unspent funds should be forfeited and returned to the federal government. The fact that there are such large balances indicates that program funds are not budgeted properly. More efficient budgeting would allow more money to be available for other program components, such as employment and leadership training and the mentor program.

Recommendation

We recommend that the department require that documentation be submitted to the fiscal office before stipends are paid and that the post graduation stipend balances for classes three through seven be closed out immediately. Future budgets should redirect funds from post graduation stipends to other program components.

Auditee's Response

Supporting documentation for stipend payments will be forwarded with the payment request to the department's fiscal office, (Fiscal Division). Post graduation stipend balances for classes three through seven will be reviewed with the ChalleNGe Program Director and should be closed with few exceptions. It should be noted that in federal program years 1996 and 1998, post graduation stipends were required to be budgeted at 100% of the determined stipend amount for the full targeted population of 200 cadets. Excess stipend funds that were generated as a result of cadet terminations were not permitted by the National Guard Bureau to be reallocated to other program requirements. This contributed to a large portion of the excess stipend funds over which the department had little control. In program year 1998 the department was permitted to reallocate stipend funds once it substantiated the 200 graduate target would not be met. We will continue to monitor the post graduation stipend program closely and request permission from the National Guard Bureau to reallocate excess stipend funds where appropriate.

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Agent Orange Commission Professional Services Contracts

Granting and payment of professional services contracts should be monitored.

The New Jersey Agent Orange Commission was established by the state legislature in 1980 to study the effects of agent orange defoliant on Vietnam era veterans and to provide for the coordination of assistance. The operation of the commission is funded through department appropriations. Our review of the two professional service contracts entered into by the commission revealed control weaknesses in the granting and monitoring of the contracts.

The commission awarded a contract to the Association of Birth Defect Children to collect data regarding birth defects and learning disabilities in children of Vietnam veterans. The contract established that the final two payments would be made based on receiving 700 valid responses. Although only 174 responses were obtained by the study, the final two payments totaling \$7230 were made. Proper monitoring of the contract would have decreased the possibility of the overpayment by the department.

The commission did not comply with state purchasing procedures when granting a contract in the amount of \$6246 to Montclair State University to conduct a survey of doctors regarding symptoms of dioxin exposure. Instead of obtaining written quotes as required by Treasury Circular Letter 98-18-DPP, the commission gave the contract to the university where the study would be conducted by one of the commission members.

Recommendation

We recommend that the department monitor professional service contracts to ensure payments are based upon approved payment schedules and that the department comply with circular letters when awarding future contracts.

Auditee's Response

The department will monitor professional service contracts in more detail to insure that payments are in accordance with established procedures and schedules as stated in the contract. The department takes exception to the finding concerning the contract to Montclair State. This contract was below the \$11,000 limit and

the department using its Delegated Purchasing Authority, (DPA), elected to waive bidding procedures. Based on the recommendation of the Agent Orange Commission, the department agreed that Montclair State University was best qualified in terms of expertise and resources to conduct this physician survey. Even though a member of the Commission as an employee of Montclair State assisted in the conduct of this survey, the department believed there were adequate controls in place to insure the efficacy of the study.

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Fixed Assets

Fixed asset records should be maintained.

As noted in prior audits, the department does not maintain fixed asset records as required by Treasury Circular Letters 91-32 and 94-05. These directives require that the department maintain a fixed asset inventory system, perform an annual physical inventory and report assets over \$20,000 to the Department of the Treasury on an ongoing basis. Circular Letter 94-05 further states that final submission of fixed asset documents should be no later than July 31 of each year to ensure that these transactions are reflected in the financial statements for the fiscal year in which they occur. The department's fiscal year 1998 additions and deletions totaling \$2.9 million were reported incompletely to Treasury in January 1999. The department has not complied with fixed asset requirements because its new bar code system, which was introduced in 1996, has not been completely implemented.

Recommendation

We recommend that the department maintain and report fixed assets in accordance with Circular Letters 91-32 and 94-05.

Auditee's Response

The department is in the process of updating its fixed asset record and will be in compliance with OMB Circular Letter 94-05 when it submits its report to the Office of Management and Budget by 31 July, (for all assets valued at \$20,000 or greater). The bar code system implemented in FY 1996 to account for all departmental assets has established a data base of

departmental fixed assets but this system must be updated and greater emphasis placed on actual physical inventories and records reconciliation.

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