

**Veterans Trust Fund Grant Program  
Department of Military and  
Veterans Affairs**

**Performance Audit  
May 2014**



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is to improve government for the people of Colorado.*



May 15, 2014

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of Veterans Trust Fund Grant Program within the Department of Military and Veterans Affairs. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government, and Section 2-3-113, C.R.S., which states that it is the duty of the State Auditor to conduct program reviews and evaluations of the performance of each Tobacco Master Settlement Agreement program. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Military and Veterans Affairs and the Colorado Board of Veterans Affairs.



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## *Glossary of Terms and Abbreviations*

**Board** – The Colorado Board of Veterans Affairs within the Colorado Department of Military and Veterans Affairs

**COFRS** – Colorado Financial Reporting System

**Department** – The Colorado Department of Military and Veterans Affairs

**Division** – The Division of Veterans Affairs within the Colorado Department of Military and Veterans Affairs

**Program** – The Veterans Trust Fund Grant Program administered by the Colorado Department of Military and Veterans Affairs

**SMART** – State Measurement for Accountable, Responsive, and Transparent Government Act

**VTF** – The Colorado Veterans Trust Fund

**VTF Committee** – A committee of the Colorado Board of Veterans Affairs that reviews Veterans Trust Fund Grant applications

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# VETERANS TRUST FUND GRANT PROGRAM

## Performance Audit, May 2014 Report Highlights



Dianne E. Ray, CPA  
State Auditor

Department of Military and Veterans Affairs

### PURPOSE

Determine whether the Department of Military and Veterans Affairs' (Department) and Board of Veterans Affairs' (Board) grant awarding process and management of grant contracts for the Veterans Trust Fund Grant Program (Program) are in compliance with applicable statutes, ensure that grantees expend grant funds in accordance with Program goals and grant contract requirements, and efficiently and effectively accomplish the Program's statutory purpose.

### BACKGROUND

- There are approximately 391,000 veterans in Colorado, many of whom are in need of assistance, such as those who are homeless, indigent, disabled, or unemployed.
- Senate Bill 00-71 established the Colorado Veterans Trust Fund (VTF) to provide grants to nonprofit veterans' organizations, veterans' nursing homes, and veterans' cemeteries in the state to assist veterans.
- In Fiscal Years 2010 through 2014, the Board awarded 205 grants totaling \$4.4 million to Colorado veterans organizations.

### OUR RECOMMENDATIONS

The Department and Board should:

- Identify specific priorities, clearly defined grant award criteria, and an objective scoring tool to be used in the grant award and funding decision process.
- Improve contract monitoring to ensure grantees comply with contract and reporting requirements.
- Develop and implement an overall performance improvement plan for the Program.
- Ensure compliance with Colorado's open meetings law by implementing changes to its meeting procedures and reflecting those changes in its bylaws.
- Improve policies and procedures related to conflicts of interest.

The Department and Board agreed with all these recommendations.

### EVALUATION/AUDIT CONCERN

**The Board has awarded more than \$7 million in VTF grants to veteran organizations over the past twelve years without a process to ensure consistent, transparent, and equitable grant award decisions. Further, because the Board has not developed clear goals and performance measures for the Program, the Board is unable to demonstrate the effect the Program has had on the veterans during that time.**

### KEY FACTS AND FINDINGS

- In the Fiscal Year 2013 grant cycle, there were 40 grant contracts, totaling almost \$900,000. The individual grant contract amounts ranged from \$2,000 to \$79,080.
- Grant application and awarding guidelines contain only broad language which do not specify clear goals and therefore do not provide a clear direction for using the limited funding to provide assistance where it is most needed.
- We could not determine whether the Board's process for making grant award and funding decisions for the Fiscal Year 2013 grant cycle was consistent and equitable to all applicants or whether it targeted funds to those applicants that could most effectively address the needs of veterans in Colorado.
- We identified 55 of the 900 expenditures in our sample that may not be appropriate to carry out the purpose of the grant project.
- We found that 140 of the 900 expenditures in our sample lacked a detailed and accurate description of the items or services provided, and that for 748 of the 900 expenditures in our sample the documentation provided by the grantees was insufficient to allow the Department to determine whether the payment was appropriate given the purpose of the grant.
- The statements of work in the Department's contracts with the grantees are not clear or comprehensive enough to describe specifically how grant funds are intended to be used by grantees.
- The Department and Board do not measure the number of veterans served, the types of services provided, or how the services helped improve conditions for veterans.
- We found that three previous Board members had voted on grant applications with which they had potential conflicts of interest.
- The Board has not consistently followed the requirements of Colorado's open meetings laws.

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## RECOMMENDATION LOCATOR

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<b>Rec. No.</b>	<b>Page No.</b>	<b>Recommendation Summary</b>	<b>Agency Addressed</b>	<b>Agency Response</b>	<b>Implementation Date</b>
1	23	Improve the Veterans Trust Fund Grant Program's (Program's) ability to target limited funding to where the needs are greatest and apply objective criteria in grant award and funding decisions by (a) identifying specific Program goals or priorities that clearly reflect the types of grant projects the Board determines should be funded each year, (b) developing clearly defined grant award criteria that align with the priorities and include any other factors the Board intends to consider in evaluating grant applications, and (c) implementing an objective scoring tool to guide and document the review of all grant applications during the grant award process.	Board of Veterans Affairs	Agree	November 2014

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## RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
2	33	<p>Improve contract monitoring over the Program by (a) working with the Board of Veterans Affairs (Board) to amend the grant application form to require applicants to provide a specific description of how grant funds will be spent, including the purpose of the project, the specific goods and services to be purchased and/or provided to veterans, and the number of veterans to be served; (b) developing clear, comprehensive statements of work in the grant contracts, based on the more comprehensive program description required in part “a” that provide specific guidance on allowable uses of grant funds; (c) developing and providing to grantees clear guidance on all requirements related to the grant program including what supporting documentation must be obtained and what must be provided to the Department to support grant expenditures, and what information must be provided in a written advance request that is consistent with the requirements found in the contract and policies; (d) implementing a review or audit process to ensure that grantees are obtaining all documentation necessary to support expenditures if the guidance developed in part “c” does not require the grantees to submit all supporting documentation to the Department; (e) withholding reimbursements or not allowing expenditures to count against advances when grantees do not provide a detailed description and the supporting documentation for expenditures as required by the contract or policies, or make expenditures before the contract is executed; and (f) strengthening the advance payment oversight by enforcing the 90-day requirement for expending advance funds and developing written guidance for when advance funds can be more than 25 percent of the total grant amount.</p>	<p>Department of Military and Veterans Affairs</p>	<p>Agree</p>	<p>November 2014</p>

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## RECOMMENDATION LOCATOR

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Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
3	41	Develop and implement an overall performance measurement plan for the Program that includes, at a minimum (a) identifying specific, measurable goals related to the desired outcomes for the Program; (b) establishing meaningful performance measures to evaluate whether the Program is making progress toward meeting the identified goals; and (c) developing data collection methods to obtain accurate, reliable data to track Program performance, including requiring grantees to report statistics related to the performance measures.	Department of Military and Veterans Affairs	Agree	November 2014
			Board of Veterans Affairs	Agree	November 2014
4	50	Ensure compliance with Colorado’s open meetings law by implementing changes to its meeting procedures and reflecting those changes in its bylaws as needed, including (a) providing advance, public notice, with detailed agenda information whenever possible of all meetings involving two or more members of the Board to ensure the meetings are open to the public; (b) implementing a process to ensure complete and accurate minutes of all meetings of two or more members of the Board are recorded, including detailed records of all votes on formal actions including grant award decisions; and (c) implementing a process to make meeting minutes accessible to the public in a consistent and timely way, such as posting the minutes on the Board’s website within a specified time frame after the meeting.	Board of Veterans Affairs	a. Agree b. Agree c. Agree	a. July 2014 b. Implemented and Ongoing c. Implemented and Ongoing

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## RECOMMENDATION LOCATOR

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<b>Rec. No.</b>	<b>Page No.</b>	<b>Recommendation Summary</b>	<b>Agency Addressed</b>	<b>Agency Response</b>	<b>Implementation Date</b>
5	56	Improve the Board's policies and procedures related to conflicts of interest in the Program grant award process by (a) establishing a process prior to the grant award review to discuss potential conflicts of interest, identify any affiliations that members might have with applicants, determine whether the affiliations create a conflict of interest, and implement ways to mitigate the potential conflicts; (b) requiring Board members to update their conflict of interest disclosure forms annually and when circumstances change that might create a new conflict or eliminate one already reported; (c) modifying the grant award voting process to include a process that allows members with affiliations with organizations requesting a grant to abstain from discussion and official voting on the application, and a process for maintaining detailed documentation of the discussion of all potential conflicts of interest and instances in which Board members recuse themselves from discussion and votes; and (d) providing training for new and existing Board members on their responsibilities to disclose and mitigate any potential conflicts of interest.	Board of Veterans Affairs	Agree	July 2014

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# Overview of the Veterans Trust Fund Grant Program

## Chapter 1

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The United States Department of Veterans Affairs estimates that, as of September 2013, of the estimated 22 million veterans in the United States whose service ranges from World War II, Korea, Vietnam, the Gulf War, and the intervening peacetime operations, approximately 391,000 veterans live in Colorado. The largest segment of veterans is those over 65 years of age. According to the Colorado Department of Military and Veterans Affairs' (Department) Veterans Trust Fund Fiscal Year 2013 annual report, many veterans in the state are in need of assistance such as those who are in nursing homes and those who are homeless, indigent, disabled, or unemployed.

Recognizing the needs of veterans in Colorado, in 2000, the General Assembly enacted Senate Bill 00-71 to establish the Colorado Veterans Trust Fund (VTF). Section 28-5-709, C.R.S., sets forth the following uses of VTF monies:

- Capital improvements or needed amenities for state veterans nursing homes
- Costs incurred by state veterans cemeteries
- Veterans programs operated by nonprofit veterans organizations that meet criteria adopted by the Board of Veterans Affairs (Board) and selected by the Board as grant recipients
- Costs incurred by the Department's Division of Veterans Affairs (Division)

The Board administers the Veterans Trust Fund Grant Program (Program) by providing funds for veterans' nursing homes, veterans' cemeteries, and veterans' programs offered by nonprofit veterans' organizations through a competitive grant process.

## Grant Awards

During the five year period of Fiscal Years 2010 through 2014, the Board awarded 205 grants totaling \$4.4 million to nonprofit veterans' organizations, veterans' nursing homes, and veterans' cemeteries in the state. Grants have included projects such as transportation assistance for veterans to medical

appointments and Veterans Affairs medical facilities, and funding assistance for basic necessities for homeless and low income veterans. The table below shows the number and dollar amount of VTF grants awarded over the past five years.

<b>Veterans Trust Fund Grants Totals</b>						
<b>Fiscal Year 2010 through 2014 Grant Cycles</b>						
<b>Fiscal Year</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Total</b>
<b>Total Granted</b>	\$917,400	\$954,800	\$802,200	\$892,800	\$842,000	\$4,409,200
<b>Number of Grants</b>	35	39	44	40	47	205
<b>Average Award Amount per Grant</b>	\$26,200	\$24,500	\$18,200	\$22,300	\$17,900	\$21,500
<b>Source:</b> Office of the State Auditor's analysis of data provided by the Department of Military and Veteran Affairs.						

## Program Administration and Oversight

Originally, the Program was administered by the Department of Human Services. However, on July 1, 2002, the Program was transferred to the Department of Military and Veterans Affairs. Statute [Section 28-5-702(1) and Section 28-5-709(4) et seq., C.R.S.] establishes the Board as a Type 2 Board under the Department and gives the Board primary responsibility for grant award decision making and oversight of the Program.

The Board consists of seven members who are veterans appointed by the Governor and confirmed by the Senate. The Board has broad oversight duties related to veterans' affairs in the State, including responsibility for advising and assisting the Governor, any department in the executive branch, and the General Assembly regarding veterans' matters. Under these statutes, the Division is responsible for ensuring proper administration of the Board's statutory requirements. Specific to administration of the Program, Division staff are responsible for processing grant applications, assisting the Board with making grant decisions, and providing management and oversight of awarded grants.

## Program Funding

The Program is funded as part of Colorado's portion of the Tobacco Master Settlement Agreement. The agreement is the product of a 1998 settlement between tobacco manufacturers and states, which sued tobacco manufacturers in the mid-1990s to recover Medicaid and other health-related costs incurred as a result of smoking. The Tobacco Master Settlement Agreement provides Colorado with an annual revenue stream that is directed through statutory formulas to a wide variety of programs, primarily in the area of public health.

The Program is entirely funded through Tobacco Master Settlement Agreement funds. According to statute [Section 24-75-1104.5(1), C.R.S., and Section 24-75-1104.5(5), C.R.S.], the Program receives one percent of the Tobacco Master Settlement Agreement funds up to a maximum of \$1 million each fiscal year. However, not all of the funds the Program receives each year can be appropriated for use under the Program. Beginning in 2001, statute [Section 28-5-709(3), C.R.S.] has required that a portion of the funds remain as principal in the VTF. The amount available for use has fluctuated over time, but since Fiscal Year 2009, statutes [Section 28-5-709(3)(c), C.R.S.] have required that 10 percent of the portion of Tobacco Master Settlement Agreement funds allocated to the VTF each year remain in the VTF, leaving 90 percent, plus the interest earned by the VTF, available for grants and Division costs. Specifically, House Bill 09-1329 reduced the amount of Tobacco Master Settlement Agreement funds required to remain as principal in the VTF, which increased the amount of funds available for use in Fiscal Year 2009 by \$350,000 and in Fiscal Year 2010 by \$439,500. However, since House Bill 09-1329 was passed at the end of that Fiscal Year, the Department was unable to use most of the additional appropriation for grants in Fiscal Year 2009. Statute [Section 28-5-709(1), C.R.S.] allows the Department to use VTF monies for costs incurred by the Division, and up to five percent of the annual appropriated amount may specifically be used for costs incurred by the Division to implement provisions of Title 28, Article 5 of Colorado Revised Statutes pertaining to veterans.

The table below shows the appropriations to the VTF, the amount of VTF funds spent on grants, and the amount of funds used for Department activities for Fiscal Years 2009 through 2013.

<b>Veterans Trust Fund Grant Program Appropriation and Expenditures by Source Fiscal Years 2009 Through 2013</b>						
	<b>Fiscal Year</b>					
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Total</b>
<b>Tobacco Master Settlement Funds Transfer</b>	\$998,600	\$998,100	\$941,300	\$891,500	\$908,100	\$4,737,600
<b>Appropriation<sup>1</sup></b>	\$977,500	\$1,028,900	\$1,029,300	\$811,800	\$933,000	\$4,780,500
<b>Expenditures</b>						
Amount Spent on Grants <sup>2</sup>	\$616,400	\$875,200	\$946,600	\$764,300	\$867,800	\$4,070,300
Division Expenditures	\$24,800	\$62,400	\$26,600	\$32,600	\$24,300	\$170,700
<b>Total Expenditures</b>	\$641,200	\$937,600	\$973,200	\$796,900	\$892,100	\$4,241,000
<b>Difference<sup>3</sup></b>	\$336,300	\$91,300	\$56,100	\$14,900	\$40,900	\$539,500
<b>Source:</b> Office of the State Auditor's analysis of information from the Colorado Financial Reporting System (COFRS) and Appropriation Bills.						
<sup>1</sup> Appropriation includes: 90 percent of the anticipated Tobacco Master Settlement Funds transfer to the Veterans Trust Fund (VTF) for the year as allowed by Section 28-5-709(3)(c), C.R.S., interest earned by the VTF, and any unspent funds from the prior year's appropriation.						
<sup>2</sup> Amount Spent on Grants includes: grants to nonprofit veterans' organizations, veterans' nursing homes, and veterans' cemeteries.						
<sup>3</sup> Difference is the difference between the appropriation and the total expenditures. This amount is available for appropriation for the Program the following year.						

## Audit Purpose, Scope, and Methodology

We conducted this performance audit pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government, and Section 2-3-113, C.R.S., which states that it is the duty of the State Auditor to conduct program reviews and evaluations of the performance of each Tobacco Master Settlement Agreement program. Audit work was performed from October 2013 through May 2014. We acknowledge the cooperation and assistance provided by management and staff at the Department of Military and Veterans Affairs and members of the Board of Veterans Affairs.

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

The primary objective of this audit was to evaluate the Department and Board's grant awarding process and management of grant contracts to determine whether the Program is in compliance with applicable statutes, has adequate controls to ensure that grantees expend grant funds in accordance with Program goals and grant contract requirements, and is efficiently and effectively accomplishing the statutory purpose of the Program. Specifically, we evaluated whether:

- The Board is ensuring funded grant projects address the State's most critical veterans' needs, and have adequate policies and procedures in place to ensure the grant award process is transparent, equitable, and aligned with statutory requirements.
- The Department has adequate policies and procedures to ensure grantees use grant funds in accordance with Program requirements and whether the Department has adequate processes in place to monitor grantee performance.
- The Department and Board have established sufficient mechanisms to measure whether the Program is performing effectively.
- The Board is in compliance with statutes and Board bylaws related to publicly announcing upcoming meetings, making meetings publicly available, and posting minutes of meetings, particularly meetings in which VTF grant award decisions are made.
- The Board is adhering to Colorado Code of Ethics requirements [Section 24-18-102, C.R.S. and Section 24-18-108.5, C.R.S.] regarding conflicts of interest and whether the Board has adequate policies and procedures in place to identify and mitigate potential conflicts of interest.

To accomplish our audit objectives we:

- Reviewed relevant state statutes and rules, Board bylaws and VTF grant policies, the Department's written policies and procedures related to the grant award process, Department and Board strategic plans and website, the Board's Fiscal Year 2013 annual report for the Program, the VTF grant application form, and Board meeting minutes from October 2011 through August 2013 (the time period that pertains to the Fiscal Year 2013 grant cycle), and the Department's Fiscal Year 2013 grant contract templates.
- Interviewed Department staff and all current Board members. Our review and interviews were intended to provide us with an understanding of the

Board's process for setting goals or priorities for targeting grant funding to address veterans' needs, with a focus on the Fiscal Year 2013 grant cycle, and the Board's process for making grant award and funding decisions.

- Conducted a review of all 41 grant applications, grant award decisions, and the final contracts for the 40 grantees that were awarded funds for the Fiscal Year 2013 grant cycle. We chose to review the Fiscal Year 2013 grant cycle because it was the most recent fully completed grant cycle; meaning that we would be able to review both the grant award process and the grant monitoring for the cycle.
- Evaluated the Department's process for monitoring the grantees' performance, with a focus on how the Department reviews and approves the grantees' expenditure reports. We reviewed grant contracts and grant files, and conducted expenditure testing for all expenditures made for a sample of 10 of the 40 grants awarded in the Fiscal Year 2013 grant cycle. This expenditure testing involved reviewing all documentation the Department received from the grantees in support of the 900 expenditures of grant funds. These expenditures represent more than \$236,000 of the almost \$868,000 (27 percent) that was disbursed to the grantees in this grant cycle.
- Reviewed statutes that contain provisions about measuring and reporting Program outcomes, and national guidance for government grant program administration.
- Reviewed Colorado's open meetings law [Section 24-6-401 et seq., C.R.S.] to identify requirements the Board must follow to ensure the public has access to its meetings and records of its meetings. In addition, we reviewed Board meeting minutes for the period of October 2011 through August 2013 and viewed the Board's website during the audit to identify how the Board posts notice of its meetings and makes the minutes available to the public at the time of our audit.
- Reviewed Board members' conflict of interest disclosure forms for Board members on the Board in May 2012 (when grant award decisions were made for the Fiscal Year 2013 grant cycle). We also listened to audio recordings of Board meetings from January through June 2012 which coincides with the application and award process for the Fiscal Year 2013 grant awards. Finally, we conducted internet research to identify Board members' affiliations with veterans' organizations and held interviews with Department staff and all current Board members to identify the Board's conflict of interest policies and procedures.

We relied on sampling techniques to support our audit work as follows:

- We selected a nonstatistical judgmental sample of 10 of the 40 grants awarded in Fiscal Year 2013. We designed our sample to provide sufficient and appropriate evidence for evaluation of the Department's controls over Program expenditures.

We planned our audit work to assess the effectiveness of those internal controls that were significant to our audit objectives. Our conclusions on the effectiveness of those controls, as well as specific details about the audit work supporting our findings, conclusions, and recommendations, are described in the body of the report.

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# Program Effectiveness

## Chapter 2

The Veterans Trust Fund Grant Program (Program) is jointly administered by the Board of Veterans Affairs (Board) and the Department of Military and Veterans Affairs (Department). Section 28-5-709(5), C.R.S., states that the Board is responsible for establishing the criteria for the grant applications, developing the grant application form, and making grant award decisions. The Board has an annual process for awarding Program grants to veterans' organizations in the state. The full timeline for the grant award process is outlined in the chart below.

<b>Veterans Trust Fund Annual Grant Award Process</b>	
<b>November</b>	The Department's grant administrator makes a presentation at a meeting of the United Veterans Committee, a non-profit coalition of 50 chartered and federally recognized veterans' service organizations in the state, to announce that the application period for the grant is open. The grant application form is made available online. The Department does not issue a formal written request for proposals.
<b>March 1</b>	March 1 is the deadline for veterans' organizations to submit a completed application to the Department.
<b>March</b>	The Department's grant administrator conducts an initial review of the grant applications received to identify those that are eligible veterans' service organizations. The grant administrator assists grantees that have not submitted complete grant applications to revise and finalize their applications, and then sends all eligible, complete applications to a subcommittee of the Board (referred to as the "VTF committee") for review.
<b>April</b>	The VTF committee, consisting of two or three Board members and the grant administrator, meets to discuss the grant applications and develop a list of grant award recommendations. This list includes recommendations about which applications should receive a grant award and how much funding recommended projects should receive. At the April Board meeting, each Board member receives a copy of all the grant applications along with the VTF committee's recommendations.
<b>May</b>	At the May Board meeting, the Board reviews the VTF committee's recommendations and discusses only the grant applications that would change the final recommendations. At the end of the meeting, the Board conducts a final vote to approve the full slate of grant awards for the year. Grant award letters and denial letters are sent to applicants.
<b>Source:</b> Office of the State Auditor's analysis of the Department of Military and Veterans Affairs and Board of Veterans Affairs' grant application and award cycle information.	

The Department, meanwhile, has primary responsibility for negotiating a contract with each grantee and for monitoring grant contracts to ensure grantees are performing adequately. Specifically, the monitoring process includes receiving and reviewing periodic expenditure reports and quarterly activity reports from each grantee and verifying that all expenditures are appropriate based on the contract.

Overall, after reviewing both the Board's and the Department's goals and priorities, the grant award process, the contracting process, the oversight of the contracts, measures of the Program's effectiveness, and specifically the Board's practices regarding meetings and conflicts of interest, we identified problems in several key areas that weaken the Program's overall ability to effectively meet the needs of veterans in the state.

## **Program Goals and Grant Awards**

### **What audit work was performed and what was its purpose?**

We reviewed state statutes, Board bylaws and VTF grant policies, the Department's written policies and procedures for the grant award process, Department and Board strategic plans and websites, the VTF grant application, and Board meeting minutes from October 2011 through May 2012, which covers the entire time period applicable to grant award decision making for the Fiscal Year 2013 grant cycle. We also interviewed Department staff and all current Board members. Our review and interviews were intended to provide us an understanding of the Board's process for setting goals or priorities for targeting its grant funding to address veterans' needs, with a focus on the Fiscal Year 2013 grant award cycle, and the Board's process for making grant award and funding decisions. We also reviewed all 41 grant applications and the final contracts for the 40 grantees that were awarded funds for the Fiscal Year 2013 grant cycle. Finally, we performed a more in depth review of grant award decisions and documentation for a sample of 10 of the 40 grantees for Fiscal Year 2013.

The purpose of our audit work was to determine whether the Department and Board: (1) are effective at ensuring that funded grant projects address the State's most critical veterans' needs and (2) have adequate policies and procedures in place to ensure the grant award process is transparent, equitable, and aligned with statutory requirements.

### **How were the results of the audit work measured?**

We evaluated the Board's and Department's policies and processes with respect to awarding VTF grant funds in two ways:

**Goals to target limited funds.** Funding for the Program is limited. The Program has had roughly \$882,000 annually to award in grants during the last five fiscal years, while the demand for grant funds has averaged about \$1.36 million during that time period. Because the Program has had only enough funding, on average, to award about 65 percent of the amounts requested through grant applications each year, it is important for the Department and Board, in consultation with the Department, to establish goals to target the awarding of grant funds. One way the Board could set goals for the use of grant funds is by using the results of the statutorily required studies of the problems veterans face in Colorado. Section 28-5-703, C.R.S., requires the Board to “study periodically the problems of veterans and based on such studies... propose such program or statutory changes as it may deem advisable or necessary for veterans' assistance by the state of Colorado.”

**Consistency, transparency, and equitability of the grant awards process.** The State Measurement for Accountable, Responsive, and Transparent (SMART) Government Act [Section 2-7-201(1)(a), C.R.S.] emphasizes accountability and transparency, stating “It is important that state government be accountable and transparent in such a way that the general public can understand the value received for the tax dollars spent by the state.” Consistency, transparency, and equitability can be promoted through the establishment of clear criteria for making decisions about which grant applications to fund and at what amounts. Statute [Section 28-5-709(5), C.R.S.] requires the Board to adopt criteria for selecting appropriate veterans programs to receive grants and the amounts of the grants that will be awarded.

We found several other grant programs in the State that establish goals for awarding grants and that apply clearly defined criteria using standardized scoring tools to evaluate grant applications. These programs may serve as models for the VTF Grant Program in these areas. One of these is the Department of Public Health and Environment's Colorado HIV and AIDS Prevention Program (CHAPP) which annually reviews epidemiological studies on HIV and AIDS in Colorado to help create statewide goals, priorities, and specific emphasis areas, such as high risk populations, for awarding grants. For example, in its most recent grant cycle, CHAPP identified high risk women of color, injection drug users, and persons transitioning from incarceration or recently paroled as high risk populations, and prioritized the awarding of grants to projects serving these populations. Similar to the VTF Grant Program, only a few of the members of the CHAPP Board score each application and make recommendations for funding to the full Advisory Board. The members use a scoring tool that includes specific criteria, such as how the grant application addresses the emphasis areas.

## What problem did the audit work identify?

**Lack of specific Program goals.** When we reviewed the policies, procedures, website, bylaws, strategic plan, and reports mentioned above, we looked for clear goals or priorities for how the Board awards grants. However, all the materials we reviewed contained only broad language which do not specify clear goals and therefore do not provide a clear direction for using the limited funding to provide assistance where it is most needed. For example:

- The **Department’s VTF website** explains that the Program is available to provide funds to assist a variety of veterans projects that may include, but are not limited to, *transportation, food and shelter for homeless veterans and their families, incarcerated veterans programs, homeless stand-downs (one-time events to provide needed supplies to homeless veterans), job assistance and other worthwhile programs that provide a “direct service” to the veteran community.*
- The **Board’s VTF policies** state that grants may be awarded to any projects operated by nonprofit veteran’s organizations located within the State that *provide assistance to the needs of veterans for their health and well being.*
- The **Board’s “priority” list for grants**, developed each year, includes a wide range of services. For the Fiscal Year 2013 grant cycle, the list was: *basic necessities such as food, clothing, housing, storage, and medical; stand downs; medical transportation; job assistance; state veterans nursing homes; and special or non-essential programs.*

**Lack of a process to ensure consistency, transparency, and equitability in awarding grants.** We could not determine whether the Board’s process for making grant award and funding decisions for the Fiscal Year 2013 grant cycle was consistent and equitable to all applicants or whether it targeted funds to those applicants that could most effectively address the needs of veterans in Colorado. We found that all of the grants awarded in Fiscal Year 2013 were for projects included on the “priority” list. However, we could not tell whether the following award and funding decisions were made to somehow align with the “priority” list, in consideration of the other factors discussed above, or for other reasons.

- Based on our review, the one grant application the Board denied appeared as if it could be considered a non-essential program, which is included on the Board’s “priority” list. The purpose of this project was to create handouts that would direct veterans to services that could help them deal with barriers to adjusting to civilian life, such as post-traumatic-stress-disorder, anger issues, depression, or unemployment. Department staff

told us this grant was denied because it did not address any of the Board's priority areas. However, as we will discuss later, there is no written explanation of what non-essential or special programs are that would ensure all Board members, and grant applicants, have a similar understanding of what project would and would not fit within this category.

- In the Fiscal Year 2013 grant cycle, of the 40 grants the Board awarded, 16 received the full amounts requested and 24 received a reduced amount ranging from eight to 84 percent of the amounts requested. For 15 of the 24 applications that were awarded reduced funding, the Board had no documentation indicating the reason for the reductions. For the other nine, the Board had notes taken by Department staff, but the notes were so abbreviated that we could not evaluate whether the Board was consistent in how it awarded the grants. Examples of the notes include: "VA Fuel Housing Denver VA pay Maint ALB?", "Remove Trans VA?", and "More Detailed Narrative." Department staff were able to explain the notes to us, however due to the cryptic nature of the notes and the lack of any notation for many grant awards, the current process does not adequately document the rationale for all funding decisions.

Further, although the Board identified three factors as items it considered when evaluating grant applications during the Fiscal Year 2013 grant cycle—"continuing or new project", "past performance", and "outlying areas"—we found no evidence of how any of these factors were used in evaluating grant applications. In addition, some Board members reported applying a separate criterion during the grant review. Specifically, several members told us that if a community already has resources to provide basic needs to veterans, they would not view that application as favorably as an application from a community without those existing resources.

### **Why did the problems occur?**

**The Board and Department have not established clear, consistent Program goals.** As noted above, Section 28-5-703, C.R.S., requires the Board to study the problems of veterans and propose program or statutory changes to veterans' assistance programs based on the studies. We found no indication that the Board uses such information to identify goals to guide both applicants and Board members with respect to the awarding of funds. We also found that Department staff and current Board members do not all agree about the goals that should be set for the Program. For example, Department staff reported that Program funds should go to projects that provide basic needs such as food, clothing, and shelter to assist veterans with daily survival. But some Board members stated they would like to see the Program target assistance to address more systemic issues, such as

helping veterans become self-sufficient and reducing the number of homeless veterans over the long term.

In addition, although the Board creates a “priority list” for VTF grants, we found two problems with the priority lists we reviewed, which were for the Fiscal Year 2012 and Fiscal Year 2013 grant award cycles. The Fiscal Year 2013 priority list established by the Board included:

- Basic necessities such as food, clothing, housing, storage, and medical stand downs (which are one-time events to provide needed supplies to homeless veterans)
- Medical transportation
- Job assistance
- State veterans nursing homes
- Special or non-essential programs

First, there is disagreement as to whether the priority list is intended to establish an actual priority with respect to how limited funds will be awarded. During our interviews, some Board members reported that the priority list should be used to rank applications, such that applications to address basic necessities should be ranked higher for funding than applications to provide non-essential programs. However, other Board members stated that applications should be considered equally as long as they address at least one of the areas on the priority list.

Second, the priority lists are vague. For example, for the Fiscal Year 2013 priority list, “special or non-essential programs” are not explained and housing assistance is not defined. The Board stated that the priority list is intentionally designed to be somewhat vague to ensure that applicants are not discouraged from submitting ideas for new types of projects. However, by not defining items such as special or non-essential programs, the priority list provides virtually no guidance about what the Board will or will not fund. For instance, by not defining housing assistance, it is unclear whether the Board would consider providing temporary shelter for a homeless veteran a priority project to be funded or that helping with mortgage payments so a veteran can remain in a permanent home is where funds should be targeted.

**The Board and Department have not developed a consistent, transparent, and equitable process for awarding grants.** The Board has not established comprehensive criteria to use in evaluating grant applications. The Board had a list of three factors they told us they use to review grant applications. However, the factors are not defined and, therefore, they do not provide guidance for how Board members are to make their grant award decisions. We identified the following specific problems with the Board’s three factors:

- **Continuing or New Project.** The Board has not defined whether a continuing project would be preferred over a new project or vice versa.
- **Past Performance.** There is no standardized way in which the Department documents the performance of applicants on past VTF grants or communicates it to the Board, although Board members stated that the Department sporadically shares anecdotal information with them when grantees have had past performance issues. Of the 41 applicants in the Fiscal Year 2013 grant cycle, 26 had received a grant the prior year.
- **Outlying Areas.** Board members and Department staff stated that applications from outlying areas are not automatically given preference over those from more urban locales, although they may be if veterans are unable to access other resources to address the needs identified in the application. According to the Board, this is a common problem in rural areas.

The Board also has not developed a scoring tool to guide and document the review of grant applications. Board members reported the grant award decisions are based on an informal discussion process in which the members use the information provided in the grant applications, the factors described above, their individual background knowledge and expertise with veterans organizations, and the historical knowledge on grantees provided by Department staff to come up with a decision on whether to provide a grant to an applicant and the amount to award.

A scoring tool would provide a way for the Board to apply comprehensive criteria consistently across all grant applications received, thereby making grant award and funding decisions objectively. Further, since it is the VTF committee that actually reviews each application, a scoring tool would allow the VTF committee to provide the full Board with specific information on how the VTF committee chose the applications and funding amounts to recommend. The Board reported it had tried using a scoring tool in the past and decided it was not effective because it was cumbersome and did not compare awarding factors appropriately. The Board found that with the tool, one application could end up scoring higher than another grant application that the Board collectively believed was a better application. Department staff reported that it was difficult to determine numeric values to assign to the various factors considered by the Board, such as types of services provided, availability of alternative sources of funding, and past performance of the grantee.

A written scoring tool should be designed to assist the Board in (1) assessing the extent to which applications align with Program priorities, once such priorities are established; (2) applying criteria, once such criteria are developed, in an objective,

consistent, and equitable manner that supports the VTF committee’s recommendations and the Board’s final grant decisions; and (3) documenting and communicating the rationale for its final grant decisions. For example, if the Board determines that a primary goal of the Program is to fund projects to help provide permanent homes to veterans, the scoring tool would reflect that priority and give more weight to criteria that relate to long-term housing than to other services. The scoring tool should also reflect other considerations that the Board decides are important, such as the location of the grant project and whether the applicant has been successful in carrying out prior VTF grants.

**Why do these problems matter?**

According to the Board, the Fiscal Year 2010 grant cycle was the first in which the amount of funds requested by grantees exceeded the amount of funds available for the Board to grant out. As such, prior to Fiscal Year 2010 the Board had not seen a need to target their awards. However, as the table below shows, applicants have requested more funds than are available for the last 5 years. The table also shows that although the Board has awarded grants to about 90 percent of applicants over the last 5 years, it has only funded 65 percent of the total amounts requested.

<b>Comparison of Veterans Trust Fund Grant Applications and Awards Fiscal Years 2010 through 2014</b>						
<b>Grant Cycle</b>	<b>Number of Applications</b>	<b>Number of Awards</b>	<b>Percent of Applicants Awarded</b>	<b>Total Dollars Requested</b>	<b>Total Dollars Awarded</b>	<b>Percent of Request Awarded</b>
<b>Fiscal Year 2010</b>	36	35	97%	\$1.0 million	\$917,000	92%
<b>Fiscal Year 2011</b>	43	39	91%	\$1.3 million	\$955,000	73%
<b>Fiscal Year 2012</b>	57	44	77%	\$1.8 million	\$802,000	45%
<b>Fiscal Year 2013</b>	41	40	98%	\$1.2 million	\$893,000	74%
<b>Fiscal Year 2014</b>	50	47	94%	\$1.5 million	\$842,000	56%
<b>Total</b>	<b>227</b>	<b>205</b>	<b>90%</b>	<b>\$6.8 million</b>	<b>\$4.4 million</b>	<b>65%</b>

**Source:** Auditor created based on data provided by the Department of Military and Veterans Affairs.

There are roughly 391,000 veterans in Colorado and according to the Department and Board many of them have significant life challenges such as financial hardship, mental and physical health conditions, and lack of job training and education to obtain a job that allows them to be self sufficient. The Board has a limited amount of VTF funds available annually to make a difference in the lives of these veterans, so it is important for the Board to have a uniform and specific direction in mind when awarding grants and allocating funds among the applicants.

### **Recommendation No. 1:**

The Board of Military and Veterans Affairs (Board) should improve the Veterans Trust Fund Grant Program's (Program's) ability to target limited funding to where the needs are greatest and apply objective criteria in grant award and funding decisions by:

- a. Identifying specific Program goals or priorities that clearly reflect the types of grant projects the Board determines should be funded each year.
- b. Developing clearly defined grant award criteria that align with the priorities and include any other factors the Board intends to consider in evaluating grant applications.
- c. Implementing an objective scoring tool to guide and document the review of all grant applications during the grant award process.

### **Board of Veterans Affairs Response:**

Agree. Implementation date: November 2014.

- a. Priorities for grant programs were voted by the Board in March 2014 and used by the Grant Committee in their April 2014 meeting to review and recommend grants to the Board. For future grant cycles, the Board will define a process for determining and publishing priorities prior to the next solicitation for grants.
  - b. Priorities for grant programs and factors to be considered were voted by the Board in March and used by the Grant Committee in their April 2014 meeting to review and recommend grants and amounts to the Board. The Board will develop criteria for scoring and comparing grants by November 2014 and will ensure that all grant award criteria are published prior to the solicitation for grants.
  - c. Using the priorities, factors, and criteria addressed in part "b" above, the Board will develop and publish a scoring tool that will be available to grant applicants for the next grant cycle which begins with applications accepted beginning December 2014.
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## Grant Contracts and Expenditures

Once the Board determines the grant awards each year, the Department executes a contract with each grant recipient. In the Fiscal Year 2013 grant cycle, there were 40 grant contracts, totaling almost \$900,000. The individual grant contract amounts ranged from \$2,000 to \$79,080.

The Department is responsible for monitoring the grant contracts throughout the year. Specifically, the Department monitors grantees' use of grant funds by reviewing project expenditures to ensure they generally align with the project budget and fall within the scope of the approved project. The Department has one part-time grant administrator who monitors the grant contracts and works with accounting division staff to disburse grant funds. Grantees can receive payments in two ways, either through a reimbursement request or through an advance payment.

- **Reimbursement Request.** A grantee pays for items or services out of its own funds, and then submits an expenditure report with a reimbursement request to the Department's grant administrator that includes a detailed list of expenditures and supporting documentation. The grant administrator reviews the expenditure report to ensure that adequate supporting documentation is provided, the expenditures are allowable under the terms of the grant award, and that there are sufficient remaining funds in the grant award to cover the expenses. The grant administrator then approves the disbursement of funds to the grantee and requests that the accounting division make the payment to the grantee. The grantee continues to request reimbursements in this way until the funds for the grant are expended.
- **Advance Payment.** Some grantees do not have their own funds to begin their projects, so the contract allows them to request advance payments. At the beginning of the grant year, a grant recipient sends a letter to the Department's grant administrator to request advance payment of up to one-quarter of the grant amount. The grant administrator approves the advance request, and the advance funds are disbursed to the grantee. After some, or all, of the advance funds are spent, the grantee sends the grant administrator an expenditure report, which details the items or services purchased, and supporting documentation. The grant administrator reviews the expenditure report and documentation to ensure that adequate supporting documentation is provided and the expenditures are allowable under the terms of the grant award, and notifies the accounting division that the advanced funds have been used by the grantee. The grantees do not have to specifically request another advance; the Department automatically provides the grantee with new advance funds equal to the

amount of spending documented in the expenditure report. This process continues until the grant funds are fully disbursed.

The Department grant administrator stated that if he does not receive sufficient information in an expenditure report, or if the documentation is not complete or accurate, he will contact the grant recipient to request additional information or clarification and hold payment until he receives it.

### **What audit work was performed and what was the purpose?**

We evaluated the Department's process for monitoring the grantees' performance, with a focus on how the Department reviews and approves the grantees' expenditure reports. We also interviewed Department staff and reviewed the Department's policies, procedures, and written guidance provided to grantees regarding grant contract monitoring. Finally, we reviewed grant contracts and grant files, and conducted expenditure testing for all expenditures made for a sample of 10 of the 40 (25 percent) grants awarded in the Fiscal Year 2013 grant cycle. This expenditure testing involved reviewing all of the documentation the Department received from the 10 grantees in support of the 900 expenditures of grant funds. These expenditures represent more than \$236,000 of the almost \$868,000 (27 percent) that was disbursed to the grantees in this grant cycle.

The purpose of our audit work in this area was to determine whether the Department has adequate policies and procedures in place to ensure grantees use grant funds in accordance with the Program requirements. We also assessed whether the Department has adequate processes in place to monitor grantee performance.

### **How were the results of the audit work measured?**

#### **Contracts**

The State of Colorado Procurement Manual (Manual) establishes requirements and provides guidance to state agencies in preparing contracts. The Manual notes that the overall purpose of a contract is to memorialize agreements and that well-drafted contracts are clear, direct, precise, and reduce the likelihood of misunderstandings and disputes. Chapter 4, Section 10 of the Manual specifically requires that all state contracts include a statement of work, defined as a detailed description of the work vendors, or grantees, are to perform. The Manual's guidance indicates that statements of work should (1) include clear and comprehensive statements about what the vendor or grantee is to do, (2) clearly identify the basic purpose of the project, and (3) identify performance expectations or deliverables. Finally, the Manual points out that statements of work are the roadmaps for contract administration. As such, we would expect the

statements of work in the VTF grant contracts to be detailed enough to provide a basis for the grant administrator to evaluate whether grant expenditures are allowable to accomplish the purpose of the grant.

### **Expenditures**

According to the State of Colorado Procurement Manual, contract monitoring should include reviewing invoices for accuracy and completeness, monitoring contractor performance to ensure conformance to budgets, and verifying that the scope of work described in the contract is delivered and the work is satisfactory.

According to the Department, grantees' expenditures of VTF grant funds must comply with the statement of work in the Department's contract with the grantees and the Board's policy that grant funds provide assistance to the needs of veterans for their health and well-being. The Board's policy also states that acceptable proof of expenditures are copies of cancelled checks, check numbers and a description of the payments, paid receipts, or bills-of-sale. Finally, the Department's grant contracts require that the grantees provide a detailed description of the services performed or goods purchased. The Department's VTF grant policy and its contracts with grantees also contain some requirements regarding advance funds and the timing of expenditures. These requirements serve as controls to help ensure that State funds are properly accounted for at all times. Specifically:

- A grantee's initial written request for advance funds must include a strong statement fully justifying the need for an advance.
- Advance funds must be used within 90 days.
- Advance funds will not exceed 25 percent of the total grant amount.
- Grant funds cannot be used until the contract is fully executed.

### **What problems did the audit work identify?**

#### **Contracts**

The statements of work in the Department's contracts with the grantees are not clear or comprehensive enough to describe specifically how grant funds are intended to be used by grantees and therefore define the types of expenditures that are allowable. In our review of the 10 contracts for the grantees in our sample we found three different statements of work, none of which were clear, comprehensive, or specific:

- Six of the contracts' statements of work were, "to support the transportation and veterans assistance program."

- Three of the statements of work were, “to support your veterans assistance program.”
- One statement of work was, “to support your women veterans of Colorado stand down program.”

In all 10 cases, these phrases were the entirety of the statement of work included in the contract. None of these statements provide any specificity about the projects the grants are funding that the Department can use in its review and approval of expenditures. In addition, for the six contracts in our sample that included multiple purposes (i.e. transportation and veterans assistance), none of them provided any indication as to how much of the grant was for any individual purpose.

### **Expenditures**

Overall, the Department’s current contract monitoring procedures are not sufficient to ensure that the grantees’ use of grant funds are appropriate given the grants’ purpose or that all payments adhere to the requirements included in the grant contract or the Department’s and Board’s VTF grant policies.

**Some expenditures do not appear to be consistent with the intent of the approved grants.** Because the statements of work in the grant contracts and the Board’s policy statement are very vague, it is difficult to determine whether some expenditures are appropriate to accomplish the purpose of a specific grant. However, we identified 55 of the 900 (6 percent) expenditures in our sample that raised questions about whether they were appropriate to carry out the purpose of the grant project. These expenditures were for a variety of purposes, and totaled almost \$7,000. Specifically:

- Four expenditures totaling more than \$1,600 were to make payments for veterans to help them avoid trouble with the law or to prevent them from being sent to jail. For example, one veteran received funds to pay back an overpayment from unemployment insurance, and another received funds to pay parking fines to keep him out of jail.
- Nine expenditures totaling more than \$1,300 were cash or checks paid directly to veterans for “emergency assistance” with no other explanation and no way to tell how the funds were actually used.
- Five expenditures totaling more than \$1,000 were for home improvement or household items, such as paint and lumber. These expenditures were for grants providing veterans assistance. However, the grantees did not provide the Department with any explanation of how these home improvements enhanced the recipient’s health and well-being.
- 37 expenditures totaling more than \$2,900 were made to a single individual for veterans assistance, and accounted for 14 percent of this

grantee's total veterans assistance spending for the year, and 26 percent of the total number of incidents of veterans assistance. Payments were made to this veteran for housing, vehicle insurance payments, vehicle maintenance, food, and gas. These expenditures were from a grant that provides veterans assistance; however, it may not be the intention of the Board to provide so many instances of assistance for such a large dollar amount to one individual veteran.

**Some expenditures were not sufficiently supported by description and documentation** to allow the Department to ensure that all payments were allowable under the grant. First, we found that 140 of the 900 expenditures in our sample, totaling more than \$31,500, lacked a detailed and accurate description of the items or services provided. For example, one grantee in our sample had 12 expenditures totaling almost \$6,000 for travel expenses, but provided no information to the Department about the purpose of the travel or the destination. Another grantee provided seven cash payments to veterans totaling more than \$800 with no explanation of why the cash was provided. Finally, grantees made 12 expenditures totaling more than \$2,100 that were paid directly to various businesses which had no stated purpose and the business name was insufficient to determine the purpose.

Second, for 748 of the 900 (83 percent) expenditures in our sample totaling more than \$196,000, the documentation provided by the grantees was insufficient to allow the Department to determine whether the payment was appropriate given the purpose of the grant. For the vast majority of the expenditures, the only documentation provided was a copy of a check or a receipt for cash received. Specifically:

- 336 payments totaling more than \$96,000 were made to businesses, such as utility companies, but the grantee did not submit any documentation to the Department supporting the amount that was paid, or that it was paid on behalf of a veteran. For instance, grantees made payments directly to utility companies for gas and electric or water bills, but did not provide the Department with copies of invoices from those companies showing the amount that was owed or by whom.
- 299 expenditures totaling almost \$31,000 were made to either veterans or volunteer drivers for travel expenses, but the grantee did not submit any documentation to the Department supporting the travel costs.
- 60 expenditures totaling almost \$12,500 were cash or check payments made directly to veterans. The expenditure reports for some of these contained a brief description of the purpose, such as “emergency assistance” or “transportation”, but no documentation was provided to support the amount paid.

- 35 payments totaling almost \$55,000 for gift cards. Most of these were for supermarkets and gas stations; however, the Department did not receive any documentation from the grantees regarding who received the cards.
- 18 expenditures totaling almost \$1,500 were made to volunteer drivers for providing transportation services, but the grantee did not provide any information on the number of veterans that were transported.

It may well be that all of these payments were appropriate within the purpose of the grants. However, there is no way for the Department to determine that without descriptions of the purpose for the payments and sufficient documentation.

**Some advance payments were not properly administered.** We found that the Department's contract monitoring process does not ensure that grantees are following all requirements that govern the receipt and use of advanced grant funds. Specifically, we found:

- **Strong statement of need.** The Department did not require a strong written statement of need from any of the seven grantees in our sample that received advances. Specifically, we found that none of the letters asking for an advance contained any explanation of why it was needed. For example, one grantee's request consisted entirely of the following: "Could you please advance \$1500 from the trust fund to the post. This is one quarter of the grant."
- **Advance funds must be spent within 90 days.** The Department does not ensure that all advance funds are used within 90 days of receipt as required by the contract. We found that four of the seven grantees in our sample that received advance payments did not expend their full first advance payment within 90 days. Specifically, these four grantees initially requested a total of almost \$39,000 and only spent a little more than \$15,000 (about 38 percent) within the first 90 days. On average, these four grantees did not submit invoices for the expenditure of their first advance until 188 days after the advance was approved.
- **Advance funds for up to one-quarter of grant award.** Finally, the Department does not always limit grantees' advance funds to only 25 percent of the total grant amount. We found one advance that was made for the full grant amount of \$10,000. While the grant was for a one-time event, the full advance was given in August 2012 and the event was held in February 2013. Expenditures were made throughout this period, which means that smaller advances could have been given out periodically rather than a single payment six months before the event. The Department reported that it makes exceptions to the one-quarter advance payment

requirement if the grant is for a one-time event or large purchase such as a vehicle but does not have written guidance to that effect.

**Some funds were spent before the contract was executed.** We found that the Department approved two advance payment requests for one grantee that included items and services totaling \$2,103 that were provided up to 45 days prior to the contract execution date of August 17, 2012.

### **Why did the problems occur?**

Overall, we found the Department does not provide sufficient guidance to grantees and does not have strong grant monitoring procedures in place to ensure that all payments made to veterans through the VTF grant are appropriate and comply with Program policies.

### **Contracts**

The Department does not ensure that the purpose and goals of the projects awarded funds under the VTF grant program are developed robustly enough to allow for the Department to establish a strong statement of work in its contracts with grantees. Specifically, the projects are awarded under very broad purposes such as veterans assistance, or transportation, and no goals or specific deliverables for the projects are established. This stems largely from the fact that the Board's application form does not require applicants to provide a clear and complete explanation of the project in the application. Such an explanation should indicate at least what types or amounts of goods or services they plan to purchase, and how many veterans they plan to serve.

Of the sample of 10 applications we reviewed, nine included a very brief project description that provided no details of how the funds would be spent. For eight of these applications, the project description stated only that the grantee planned to provide assistance to veterans in need. For one application, the project description stated that the grantee planned to help unemployed veterans in their job searches. Although this description is more specific than most we reviewed, it still provides no indication of which of a multitude of job-support activities the project planned to offer, such as helping veterans prepare resumes, providing internet access so they could apply for jobs, transporting them to job interviews, purchasing interview-appropriate clothing, and so forth. In the final application we reviewed, the project description—to provide veterans with transportation to Veterans Affairs medical facilities in certain counties—was sufficiently focused to establish some limits on the types of expenditures that would be made, but still leaves room for questions, such as whether the grant would pay for fuel, taxi services, bus passes, or to purchase some form of transportation for veterans. Further, in the applications for both the job search and medical transportation applications, the

Department inserted the phrase, “and veterans assistance on an as needed basis,” in the program description which broadens the purpose of the grant and undermines the value of the more specific project descriptions provided by the grantees.

When we asked the Department how they determine whether payments are appropriate without a strong statement of work in the contract, they told us that almost any payment is allowable under the “veterans assistance” purpose.

### **Expenditures**

The Department’s monitoring of grant expenditures is not sufficient to ensure that grantees spend their grant funds to accomplish the purpose of their grant projects and in compliance with the requirements contained in their contracts, or in the Department’s policies and additional guidance. First, the Department provides conflicting information to grantees regarding its expectations for obtaining and providing documentation for expenditures and for requesting advances, as follows:

- **Documentation.** The Department does not ensure that sufficient documentation to support expenditures is collected by the grantees. The Department provided both us and grantees with conflicting information about what it requires grantees to maintain and submit to support their expenditures of grant funds. Specifically, the Department’s VTF grant policies state that a copy of a check is sufficient documentation for reimbursement requests, and the grant contracts only require that grantees submit items *such as* copies of checks or spreadsheets containing payment information. These both contradict and/or weaken the Board’s policy which requires paid receipts, invoices, or bills-of-sale as sufficient documentation for expenditures. Additionally, when we asked the Department why it reimbursed the \$197,000 in expenditures we reviewed that lacked such documentation, Department staff said there are no requirements for grantees to collect or maintain documentation of the location of travel, the use of cash payments, or invoices documenting amounts owed to businesses. As a result, the Department is approving expenditures with only a copy of a check or a receipt for cash disbursed as support. The Department indicated that it had concerns about the resources necessary for the grant administrator to review the full required documentation for each expenditure for all the grantees. However, one solution to this would be to require the grantees to collect and maintain the full documentation and then have the grant administrator review only a sample of the documentation for each grantee on a random or risk-based basis.

- **Advance Payments.** The Department’s VTF grant policies contradict the requirements found in the contracts and the description of advance payments in award letters. Specifically, the VTF grant policies state, “a request for advance is simple—the grantee/executor submits a signed letter... requesting a specific amount of advance,” while the contract and the award letters require grantees to provide a “strong” statement that fully justifies the need for an advance. Further, the Department has not defined what constitutes a “strong” statement to serve as guidance to either grantees making requests or the Department staff who determine whether an advance request will be approved.

Additionally, the Department does not track the 90-day period for each advance payment to ensure that all advance funds are expended in a timely manner. Tracking each advance payment is difficult because the Department automatically advances funds equal to the amounts the grantees report having spent in their expenditure reports; however, these expenditure reports do not necessarily account for all of the advance funds that have been provided. For example, the Department might initially issue a grantee a \$1,000 advance at the beginning of the grant period, and then the grantee might submit an expenditure report indicating it had spent \$500 of the initial advance one month later. Based on this expenditure report, the Department would automatically disburse another \$500 advance to the grantee. As a result, the Department would now need to track both the remaining \$500 of the initial advance and the second advance to ensure compliance with the 90-day rule. The Department has stated that they are working to develop a process to allow this tracking.

Finally, the Department does not have a policy for approving exceptions to its guidance that limits the amount of advance funds to no more than 25 percent of the total grant amount. As such, there is no guidance for the grant administrator to use in approving such exceptions to ensure that larger advances are justified and all grantees are treated equitably. A policy should outline the circumstances that would permit a larger advance, including requirements that the grantee justify such a request in writing.

Additionally, although the contract with the grantees does contain language allowing the Department to withhold funds, we found no evidence that the Department ever did so. In fact, the Department reported that it rarely, if ever, holds grantees accountable for complying with the contractual requirements and guidance to (1) provide a detailed description of the services or goods paid for and documents such as receipts or invoices, (2) justify the need for an advance, (3) use advance funds within 90 days or limit the amount of advance funds requested to no more than 25 percent of the total grant amount because it would be a hardship

for the grantee. However, enforcing these controls provides the Department assurance that grant funds are spent as intended and are not misused.

### **Why do these problems matter?**

The Department has a responsibility to ensure that the public monies used to fund the VTF grants are used effectively and efficiently to help veterans in need, as intended by statute. The State of Colorado Procurement Manual notes that effective contract monitoring eliminates problems and potential disputes and ensures that requirements are satisfied, goods and services are delivered, and the financial interests of the State are protected. By not including clear and comprehensive statements of work in its grant contracts and not having adequate contract monitoring policies and procedures, the Department is not effectively ensuring that grant funds are spent to accomplish the purposes of the approved grant projects and in compliance with contractual and policy requirements.

Further, without adequate controls over the use of grant funds, the Department cannot ensure that grantees are maximizing the benefits they provide to veterans or that funds are used properly, such as for expenditures that are specifically for veterans. Implementing controls to ensure that grant monies are spent effectively is particularly important because VTF grant funds are limited. Finally, the lack of control over when funds are advanced to grantees creates the possibility that (1) advances will not be provided in a consistent manner to all grantees requesting them, (2) grantees will not initiate the project in a timely manner, and (3) grant funds will accrue interest in grantee accounts rather than in State accounts. Every dollar of a VTF grant spent should be looked at as a dollar not available to another project serving veterans in need. Therefore, it is critical that the Department provide sufficient oversight and monitoring, and have clear, written requirements for grantees that ensures they have adequate controls over funds spent through the Program.

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### **Recommendation No. 2:**

The Department of Military and Veterans Affairs (Department) should improve its contract monitoring over the Veterans Trust Fund Grant Program (Program) by:

- a. Working with the Board of Veterans Affairs (Board) to amend the grant application form to require applicants to provide a specific description of how grant funds will be spent, including the purpose of the project, the specific goods and services to be purchased and/or provided to veterans, and the number of veterans to be served.

- b. Developing clear, comprehensive statements of work in the grant contracts, based on the more comprehensive program description required in part “a” that provide specific guidance on allowable uses of grant funds.
- c. Developing and providing to grantees clear guidance on all requirements related to the grant program including what supporting documentation must be obtained and what must be provided to the Department to support grant expenditures, and what information must be provided in a written advance request that is consistent with the requirements found in the contract and policies.
- d. Implementing a review or audit process to ensure that grantees are obtaining all documentation necessary to support expenditures if the guidance developed in part “c” does not require the grantees to submit all supporting documentation to the Department.
- e. Withholding reimbursements or not allowing expenditures to count against advances when grantees do not provide a detailed description and the supporting documentation for expenditures as required by the contract or policies, or make expenditures before the contract is executed.
- f. Strengthening the advance payment oversight by enforcing the 90-day requirement for expending advance funds and developing written guidance for when advance funds can be more than 25 percent of the total grant amount.

## **Department of Military and Veterans Affairs Response:**

Agree. Implementation date: November 2014.

- a. The Department, in conjunction with the Board, will amend the application form to require a specific description of how grant funds will be spent, including purpose of the project, specific goods and services to be purchased and/or provided to veterans and estimated number of veterans to be served. In coordination with the board the Department will provide guidance that describes these changes to all potential grant applicants.
- b. Initial coordination within the Department on developing clear, comprehensive statements of work for inclusion in the grant contracts has already taken place. One area of particular concern is how to manage an unanticipated requirement in support of any program but in particular those programs that provide assistance to veterans in need.

The Department will take into account the grants purpose, specific goods and services to be purchased and/or provided to veterans when writing the statement of work in the contract. Recognizing that it is extremely difficult to cover all unanticipated needs of a program in the contract, the Department will write the contract to allow a grantee to provide an unanticipated needed service/good, especially an emergency need. The contract will include language that would allow the grantee to provide an unanticipated service/good based on prior approval of the Department after reviewing the request to make certain that it is valid to ensure that a veteran with an emergency need is not overlooked.

- c. Currently there are several documents in place that discuss what is required of an organization when they are awarded a grant. Guidance is provided in the Board Policy Letter, the Letter of Intent sent to the grantee with the contract and the contract itself with any additional guidance being provided by the Grant Administrator through email, written correspondence or telephonically. The Department will create a procedural document to consolidate this broad array of communications. This guidance will clearly define required supporting documentation for expenditures and will detail what supporting documents must be submitted with reimbursements and what items will be retained by the grantee and subject to inspection. Also, a detailed explanation of submission of an advance request will be included in the Procedural document.
- d. The Department will include an audit/review of documentation that the grantee will retain on-site to support expenditures as part of the procedural guidelines. Particular emphasis will be placed on accountability for Gift Cards, Bus Passes/Tokens and the like.
- e. Modification to the reimbursement process is ongoing; procedures to preclude reimbursement of expenditures made before the effective date of the contract will be part of the Department's Procedural document. In addition, this document will clearly define processes for the withholding of reimbursements or not allowing expenditures if proper reimbursement procedures are not followed by the grantee. The Department will publish this document before the Fiscal Year 2016 grant cycle.
- f. The Department realizes that we need to strengthen oversight of advance payments and we will implement the following procedure to enforce a rolling 90 day period. As an example, when a grantee receives an initial advance, it starts a 90 day period for expenditure that is overseen by the Accounting Department. During this 90 day

period should a grantee submit a reimbursement against the initial advance and be provided an advance to match the reimbursement the initial advance plus the new advance would have to be expended within 90 days of receipt of the second advance and so forth until all funds are expended. All the while expenditure of the advance amount within the 90 day period is monitored. This will allow the grantee to have funds on hand at all times to assist veterans and it will make certain that the rolling due date for expenditure will identify when any grantee is not expending the advance in a timely manner.

In addition, written guidance will be included in the procedural document discussed in part “c” to clarify when advance funds can be approved for more than 25 percent of the total grant amount (i.e. Purchase of Vehicle for Transportation Program, Homeless Veteran Stand Down support).

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## Performance Measures

As part of their statutory requirements for the Program [Section 28-5-709(7), C.R.S.], the Department and Board develop an annual report on the Program that includes the amount appropriated, amount expended for grants and administrative costs, number of grantees, and number of instances of assistance provided through the grants. In the five most recent fiscal years completed, Fiscal Years 2009 through 2013, the Board awarded 187 VTF grants, totaling \$4.2 million to veterans’ organizations in the state and grantees reported providing over 53,000 instances of assistance to veterans with these funds. Instances of assistance provided by grantees include items and services such as basic needs assistance (food cards, rental assistance, and utility payments), medical transportation to Veterans Affairs medical facilities or doctor’s appointments, and job assistance (work clothes, and transportation).

### **What audit work was performed and what was the purpose?**

We examined the methods used by the Department and Board to measure the effectiveness of the Program. We reviewed documents related to the Program including the Department and Board strategic plans and the Board’s Fiscal Year 2013 annual report for the Program. We also reviewed statutes that contain provisions about measuring and reporting Program outcomes, and national guidance for government grant program administration. Finally, we interviewed Board members and Department staff.

The purpose of our audit work was to determine whether the Department and Board have established sufficient mechanisms to measure whether the Program is performing effectively.

### **How were the results of the audit work measured?**

We evaluated the Department's and Board's methods to measure the effectiveness of the Program against the following statutes and guidance:

- Colorado statutes contain requirements for the Program related to performance measurement. Specifically, Section 28-5-709(7), C.R.S., requires the Board to prepare an annual report that includes an evaluation of the implementation of the Program and include “the number and types of veterans programs ... that receive grants ... *and the results achieved as a result of allocations made out of the trust fund.*” [Emphasis added] Additionally, Section 28-5-709(5)(e) requires the Board to adopt “standards for determining the effectiveness of veterans programs that receive grants.”
- The SMART Government Act [Section 2-7-201 et seq., C.R.S.] establishes expectations for State departments to be accountable for the effective management of public funds by setting performance goals and measures. The Act includes the following provisions related to performance measurement:
  - “It is important that state government be accountable and transparent in such a way that the general public can *understand the value received for the tax dollars spent by the state.*” [Emphasis added]
  - “The ability of the general public, the general assembly, the governor, and state departments to assess departments' progress in achieving performance goals will lead to improvements in services rendered and increased efficiency in program administration, as well as transparency.”
  - A performance measure is “a quantitative indicator used to assess... operational performance ... and should demonstrate the department's efficiency and effectiveness in delivering goods or services.... Performance measures should be reasonably understandable to the public.”

Although the Act does not require performance measures for the Program since it is not considered a major function, it is reasonable, given the

general expectations of the Act, for the Board and Department to use a performance measurement system that evaluates whether the grants awarded are improving conditions for the veterans served.

- The *Guide to Opportunities for Improving Grant Accountability* was developed by the Comptroller General of the United States' Domestic Working Group Grant Accountability Project, a group consisting of 19 Federal, State, and local audit organizations convened to identify opportunities for improvement to the grant process in all levels of government. The Guide states that before a grant process even begins, program outcomes and performance measures must be established to serve as a guide for grant awarding and grant management. Outcomes are the actual impacts, benefits, or changes for participants in a program. In the case of the Program, the participants are the veterans served by the grantees. The report explains that government agencies should have a way to link program activities (e.g. grants to veteran organizations) to established program outcomes (e.g. impact on those veterans served by the grantees). Although the Department is not required to follow this *Guide*, it provides best practices for state grant programs.

### **What problems did the audit work identify?**

The Board has awarded more than \$7 million in VTF grants to veteran organizations over the past twelve years since the Department became responsible for the Program and the Board prepares an annual report as required by statute. However, the Board is unable to demonstrate the effect the Program has had on the veterans served. We found the Board and Department have established one goal and two performance measures for the Program, which are not related to either the number of veterans served or, more importantly, the impact of the Program on veterans. Specifically:

- **Lack of meaningful goals.** The only goal that has been set for the Program is reflected in the Department's strategic plan for Fiscal Year 2014 – to increase the number of veterans' organizations receiving grants by three per year. This is not a meaningful goal for two reasons. First, it does not indicate whether the program is performing efficiently and effectively, or whether it is having an impact on veterans. Second, it may promote underfunding of high-quality projects. If more organizations are funded each year, the average amount received by funded organizations will be reduced. Grant recipients are already receiving less funding than they request because the Program does not have sufficient monies to fully fund all qualified applications; in the Fiscal Year 2013 grant cycle, the amount granted was less than the amount requested for 60 percent of the grantees. Also, if the Board is focused only on awarding grants to more

organizations, it may fund lower-quality projects to accomplish the goal, leading to decreased effectiveness of the funds. Ultimately, it is unclear how increasing the number of organizations that are funded will improve the outcomes of the Program.

- **Lack of pertinent measures.** The Department and Board do not measure the number of veterans served, the types of services provided, or how the services helped improve conditions for veterans. In addition to tracking the number of organizations that receive grants, the only other information the Department routinely tracks and reports is the number of instances of assistance provided by the Program and the total amount expended for the Program. An instance of service might include, for example, a veteran receives a payment to buy food and another to pay rent; these would count as two instances of assistance. The number of instances of assistance does not indicate the unique number of veterans served, the types of services provided, or how the assistance improved each veteran's situation. In our review of expenditures for a sample of grantees for the Fiscal Year 2013 grant cycle, we found the number of instances of assistance varied widely. For example, we found one case where one veteran received one instance of assistance worth \$50 and one case where one veteran received 37 instances of assistance worth a total of \$2,900.

The grantees do report some data on numbers of veterans and services provided; however, this data is not reported consistently, and different grantees report the data differently, if at all. None of this additional data is required by the Department, and the Department does not compile this additional data in any way.

### **Why did the problems occur?**

Overall, we found the Department and Board have not identified goals or performance measures for the Program that relate to how the Program is improving conditions for veterans. The Department and the Board could not explain the rationale for the goal of increasing the number of grantees each year and acknowledged that it is likely not a meaningful goal for the Program. The Department and Board reported that they only ask grantees to report instances of assistance, not the unduplicated count of veterans served or how those services improved conditions for the veterans, because they believe that instances of assistance provides a better picture of how the grant funds are used. We recognize that a measure reflecting the overall quantity of services may be useful, but the current goal and data collected to measure the Program's performance do not focus on outcomes. Thus, it is unclear what types of services were provided, and the effect or outcome providing such service had on a veteran. Creating meaningful goals and performance measures for the Program would help the

Board and Department focus their efforts on promoting effective and efficient use of the grant funds awarded.

Establishing outcomes, performance measures, and data tracking methods takes time and resources. The Department has reported that it does not have the financial or staff resources to develop and track performance measures for the Program. In addition, the Department has expressed concern about placing a burden on grantees to provide data. However, the Board and Department would not need to implement complex systems to improve their outcome measurement for the Program. For example, the Board and Department could establish a few goals, such as serving a certain number of veterans each year and helping a certain number become employed, and then require grantees to report these numbers. One way the Department could access additional support for performance measurement is by contracting for assistance. Section 28-5-709(6), C.R.S., specifically allows the Department to “contract with one or more private or public entities for program monitoring and evaluation of any veterans program operated by a nonprofit veterans organization that receives funding.” Statute further permits funds to be used for this purpose when it states that the Board, “may allocate funds to the Division for the costs incurred in entering into such contracts.” In addition, historically, the Division has used less than the full amount of administrative funds allocated for the Program. So the Board and Department could decide to use additional resources to help monitor performance by grantees and compile and report more meaningful performance measures for the Program.

### **Why do these problems matter?**

There are roughly 391,000 veterans in Colorado and according to the Department and Board many of them have significant life challenges such as financial hardship, mental and physical health conditions, and lack of job training and education to obtain a job that allows them to be self sufficient. The Board has a limited amount of funds available in the Veterans Trust Fund annually to make a difference in the lives of veterans in need throughout Colorado. Consequently, it is important for the Board to ensure that available funds are used efficiently, effectively, and to improve conditions for veterans in need. Although the Department and Board members report they believe, based on anecdotal information, that the Program is helping address veterans needs, they do not have the data to demonstrate this outcome. Without goals and performance measures that relate to the impact of the program on veterans, the Board and Department do not have a uniform direction for awarding grants or statistical information to reliably assess whether the \$7 million awarded in grants over the last twelve years has improved conditions for veterans. In fact, without goals and a performance measurement system in place, the Department and Board could potentially be providing funds in areas or ways that do not have the intended impact.

Some Board members have expressed an interest in reevaluating the intent of the grant program, and looking at program outcomes to determine the types of grants provided through the VTF. These Board members explained that the Program could be more focused on long term goals rather than meeting basic needs. Therefore, this may be a good time for the Board and Department to work together to identify agreed-upon goals and measures for the Program and implement methods to collect data to evaluate outcomes and improve the program over time.

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### **Recommendation No. 3:**

The Department of Military and Veterans Affairs (Department) and the Board of Veterans Affairs (Board) should work together to develop and implement an overall performance measurement plan for the Veterans Trust Fund Grant Program (Program) that includes, at a minimum:

- a. Identifying specific, measurable goals related to the desired outcomes for the Program.
- b. Establishing meaningful performance measures to evaluate whether the Program is making progress toward meeting the identified goals.
- c. Developing data collection methods to obtain accurate, reliable data to track Program performance. This should include requiring grantees to report statistics related to the performance measures and could include hiring a contractor to assist with grant monitoring and evaluation of the Program.

### **Department of Military and Veterans Affairs Response:**

Agree. Implementation date: November 2014.

- a. The Department will develop measureable goals based on the logic model that the Department of Housing Development uses which is described in "Guide to Opportunities for Improving Grant Accountability Project" dated October 2005 – Domestic Working Group Grant Accountability Project. However, this model will be developed and tracked at the Department/Board level using data collected from the grantees. This model will be developed in support of a Colorado Board of Veterans Affairs defined Strategic Goal(s).

- b. Using the goal(s) established by the logic model as stated in our response to part “a”, meaningful performance measures can then be determined. Using the DRAFT logic model as an example; two measurable goals would reduce the need for short and long term assistance by veterans. Meaningful performance measures can then be established by using the current veteran population within the state as a base, then measuring the use of the granted monies in terms of type of assistance, numbers of veterans assisted and numbers of instances of assistance, also the amount of money expended per veteran and/or instance of assistance. Once a baseline for assistance is established then measurements of performance can be made over several years of the grant program to measure its success toward meeting the established goals.
- c. The Department will modify the quarterly reports that the grantees are required by the grant contract to submit to the Department to include specific types of assistance, numbers of veterans assisted, and instances of assistance will be gathered to track Program performance. This data, in addition to grantee reimbursements, will be used in determining whether the program is being conducted at an acceptable level of performance.

### **Board of Veterans Affairs Response:**

Agree. Implementation date: November 2014.

- a. Trying to find a “lowest common denominator” for measuring results and comparing programs has posed a significant problem for several years. There are two, number of veterans served and number of instances served that are common denominators, but they don’t allow for fair comparisons between expensive programs (in terms of cost per veteran) and those that are of an emergency nature—like a grocery store gift card. The Board and Department are committed to looking at other agencies’ models (such as the Department of Housing Development “Guide to Opportunities for Improving grant Accountability Project”) suggested in the Department response to improve upon the measurable goals and have this available to grantees prior to the start of the Fiscal Year 2016 grant cycle.
- b. Using the goals developed in part “a” above, the Board will identify appropriate measures and have this available to grantees prior to the start of the Fiscal Year 2016 grant cycle.

- c. As part of identifying better measures for progress and comparison, the Board will require revised and appropriate reporting data and statistics for grantees before the start of the Fiscal Year 2016 grant cycle.

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## Board Meetings

The Board meets monthly and is responsible for overseeing various aspects of veterans' affairs in the State, such as observing legislation impacting veterans; communicating with the Governor's staff on veterans' issues; studying the needs of veterans and presenting results to the Governor's office, legislators and state agencies; and administering veterans assistance grants, including the VTF Grant Program. As previously stated, the VTF committee of the Board, which includes at least two Board members, meets annually to discuss grant applications and develop a recommendation list for the Board. Then, after Board members have had the chance to review the applications and the recommendation list, the Board meets and discusses any Board member's proposed revisions to recommended grant awards on the recommendation list, comes to consensus on those revisions, and conducts a vote to approve the final list of grant awards for the year.

The purpose of Colorado's open meetings law [Section 24-6-401, et seq., C.R.S.] is to ensure all meetings of state public bodies are open to the public and records of these meetings are publicly available. The open meetings law states that any board, committee, commission, or other advisory, policy-making, rulemaking, decision-making, or formally constituted body of any state agency is a "state public body" and therefore subject to the provisions of the law. Further, "meeting" is defined in the law as any kind of gathering, convened to discuss public business, in person, by telephone, electronically, or by other means of communication. Consequently, the Board is a state public body and its meetings, including VTF committee meetings, are subject to the requirements of Colorado's open meetings law.

### **What audit work was performed and what was the purpose?**

We reviewed Colorado's open meetings law [Section 24-6-401 et seq., C.R.S.] to identify requirements the Board must follow to ensure the public has access to its meetings and records of its meetings. We also reviewed the Board's bylaws and interviewed Department staff and all of the current Board members to determine the Board's policies and procedures related to ensuring the Board complies with the open meetings law. In addition, we reviewed Board meeting minutes for the period of October 2011 through August 2013 and viewed the Board's website

during the audit to identify how the Board posts notice of its meetings and makes the minutes available to the public at the time of our audit.

The purpose of our audit work was to assess the Board's compliance with statute and Board bylaws related to publicly announcing upcoming meetings, making them publicly available, and posting minutes of meetings, particularly meetings in which VTF grant award decisions are made.

### **How were the results of the audit work measured?**

Statutes and the Board's bylaws contain requirements related to ensuring the public has access to Board meetings and meetings are recorded and made publicly available, as described below. We also found policies and procedures used by other public boards and commissions in Colorado that may serve as models for the Board in these areas.

#### **Meetings Open and Announced to the Public**

- Colorado's open meetings law [Section 24-6-401, et seq., C.R.S.] requires: (1) all meetings of two or more members of any state public body at which any public business is discussed or formal action taken to be open to the public at all times; (2) any meetings at which formal action occurs or a majority/quorum of the body is in attendance, or expected to be, to be held only after full and timely notice to the public; and (3) posting of advance notice of meetings to the public, including specific agenda information where possible.
- Board bylaws [Article III, Section 4] state, "All meetings of the Board shall be open to the public except as provided in law for executive sessions."

#### **Meeting Actions Recorded and Made Available to the Public**

- Open meetings law [Section 24-6-402(2)(d)(I), C.R.S.] requires that minutes of any meeting of a state public body be taken and promptly recorded and be open to public inspection.
- We identified the following examples of other state boards and committees that have established procedures for the timeframe in which they post board minutes to their website and how long they maintain minutes on their website.
  - The Tobacco Review Committee oversees the Tobacco Education, Prevention and Cessation Grant Program at the Colorado

Department of Public Health and Environment. The minutes for each meeting of the Tobacco Review Committee are reviewed and approved by the committee at the following month's meeting and posted within a week of approval. All committee meeting minutes are posted on the website for the current year and minutes for the previous year are deleted six months into the following year.

- The Public School Capital Construction Assistance Board oversees the Public School Capital Construction Assistance Grant Program at the Colorado Department of Education. Minutes for each meeting of the board are approved by the board at the next meeting and posted within a week of their approval. Archived meeting minutes and agendas for the past two years are available to the public on the Department of Education website.

### **Complete Meeting Minutes**

- Open meetings law [Section 24-6-402 (2)(d)(IV), C.R.S.] indicates that votes taken in a public meeting should be recorded and available to the public, stating: "... a state... public body may [not]... take formal action by secret ballot..., [which] means a vote cast in such a way that the identity of the person voting or the position taken in such a vote is withheld from the public." By not recording votes in minutes, it becomes difficult to make the vote available to the public.
- Board statute [Section 28-5-702(4), C.R.S.] requires the Board to keep complete records of the Board's meetings by requiring the Board to appoint a secretary whose duties include keeping, "a full and true record of [the Board's] proceedings." Although statute does not specify that votes be recorded, it is reasonable to expect the minutes to reflect votes and other actions taken by the Board in order for the minutes to constitute a full and true record of proceedings.
- We identified the following examples of other state boards or committees in Colorado that take comprehensive minutes that include documentation of board member votes and decisions made by the board. The Cancer, Cardiovascular and Chronic Pulmonary Disease Grant Program Review Committee and the Tobacco Review Committee for the Tobacco Education, Prevention and Cessation Grant Program are both administered by the Colorado Department of Public Health and Environment and share the same committee procedures. The standard practice of these committees is to record logistical information such as meeting attendance, highlights, agenda items, motions and votes, and decision items in the minutes for their meetings. Specifically, the motions are documented and if a

unanimous vote does not occur the votes are tallied and recorded to document the majority vote. For funding or grant awarding decisions, the committee uses a roll call vote to document the vote in detail. Finally, all major decision making action items are recorded in detail.

### **What problems did the audit work identify?**

The Board does not always follow the requirements of statute, its own bylaws, or common practices when holding meetings to conduct business related to awarding VTF grant program funds.

**Board meetings are not open and announced to the public.** Full Board meetings, and the annual meetings of the Board's VTF committee, are not announced to the public in advance to allow the opportunity for public input at the meetings, as intended by the open meetings law. We reviewed the Department and Board's website in February and March 2014 and did not find any announcement of upcoming Board meetings or the VTF committee meeting scheduled for April 8, 2014. Department staff confirmed that they have not been posting notice of upcoming Board meetings or VTF committee meetings on the Board's website or through any other public means. Since we began our audit work, the Department has begun to post public announcements. The Board chairman has also sent emails to certain members of the public who have specifically requested notification, but this list currently only includes 35 people, eight of whom are a current Board member or a Department staff member.

**Board meeting actions are not sufficiently documented and made available to the public.** The Board does not routinely make information from VTF committee meetings or regular Board meetings easily accessible to the public. First, Department staff reported that the Board does not take minutes of the VTF committee meetings and in our review of the Department's website we did not find minutes of those meetings. Second, we reviewed the Department's website in March 2014 and found two different websites for the Board. As of our review in March 2014, one webpage contained minutes from May, June, August, and September 2013, the other included minutes from December 2013 and January and February 2014, and neither webpage included minutes from the October 10, 2013 and November 6, 2013 meetings. The Department did add the October and November meeting minutes after our review, but they only added these to one of the websites. With two different websites, each with some minutes posted from the past year, and with minutes from some months not posted on either site, it is difficult for a member of the public to get a complete record of what occurred at recent Board meetings. The Department indicated that the two separate websites exist due to the need to comply with Federal requirements for websites for veterans and that it has been working with the Governor's Office of Information Technology to either redirect one website to the other, or to ensure that both

websites contain the same information. Ultimately, the Department would like to only have one website for veterans. Until the problem of having two websites can be corrected, the Department should ensure that both websites contain complete information or direction on each website for the public to find the other website.

**The Board does not have a process for ensuring complete meeting minutes are recorded.** Our review of Board meeting minutes for the period of October 2011 through August 2013 the time period that covers the full grant cycle for Fiscal Year 2013 grant awards showed that the minutes did not provide a full and true record of the events at meetings where grant awards are made. Specifically, the May 2012 Board meeting minutes, the meeting in which grant award decisions were made for the Fiscal Year 2013 grant cycle, did not include a record of the discussion or votes on the grant award decisions, instead the minutes simply referenced an attachment that listed the grants that were approved and the amounts funded. The May 2013 Board meeting minutes, the meeting in which the Board made grant award decisions for the Fiscal Year 2014 grant cycle, included a record of the discussion and amendments to the subcommittee's recommendations on four grant applications, but did not include information on the reasons why the amendments were made, a count of votes to approve the changes, the final vote tally for the full slate of grants, or any recusals from voting made for conflicts of interest.

### **Why did the problems occur?**

We identified the following problems with the Board's bylaws and processes that contribute to the problems we identified.

**Board bylaws do not ensure that Board meetings are open and announced to the public.** The Board bylaws do not state that meetings of the Board's committees, including the VTF committee, are open to the public and the bylaws do not state that Board or its committee meetings will be publicly announced. In fact, the bylaws specifically state that regular meetings of the Board shall be held monthly *without any other notice than this Bylaw* (Article III, Section 1) [*Emphasis added*]. When we asked Department staff the reason the Board bylaws include this statement, Department staff did not know and stated that the bylaws have not been updated since May 2003.

The Board bylaws also state that regular Board meetings are to be held on the second Wednesday of the month at the Department's executive offices, meetings may be held at other locations, and two meetings each year *must* be held at other locations. The locations are not identified in the bylaws. Of the eleven regular Board meetings in Calendar Year 2013, nine were held on a day of the month other than the second Wednesday and seven were held at a location other than the one specified in the bylaws. Further, we found that no meetings were held in July

despite the fact that the Board bylaws imply that meetings are held regularly every month.

Finally, the Board bylaws allow additional Board meetings to be held without requiring notice to the public. The bylaws state that the Board may hold additional regular meetings and *may* provide the time and place of additional meetings by resolution, but the resolution is the only notice required, so the public would not be notified. Also, the bylaws state the Board may hold special meetings, but only the Board members are required to be notified of those meetings by in-person notice, e-mail, or mail, in which case the public would not be made aware of special meetings. The Board did not hold any additional regular meetings during Calendar Year 2013 and the only special meeting held in Calendar Year 2013 was the VTF grant review committee meeting held in April 2013.

Ultimately, the methods currently reflected in the bylaws do not provide proper notice to the public of Board meetings. By not publicly posting notice of the meetings, the Board does not provide the public with any specific agenda information for any of its meetings to notify them what topics will be covered. Even if all of the regular Board meetings were held at the same place and time, the Board's bylaws are not available on the Board's or the Department's websites and thus do not provide any notice of the location or time to the public.

**The Board does not have a policy or procedure to ensure complete meeting minutes are recorded.** The Department reported that the Board does not have a policy or procedure related to the content to be included in minutes to ensure they are complete and accurate. Department staff reported that the person responsible for taking minutes in the past did not always do a complete and thorough job, including not documenting votes on decision items. However, the Department reported that the new Department staff person responsible for taking minutes for the Board effective November 2013 records a complete transcript of the meetings, including every statement made and each Board member's vote, in the minutes. We reviewed the November and December 2013 minutes and the January 2014 minutes, and the minutes appeared to be thorough and include documentation of decisions made. This change is not reflected in a written policy or procedure. The Board should provide clear written guidance, or a policy, to the designated person recording meeting minutes regarding the level of detail to be included for a complete and accurate record of all meetings, including discussion and votes on Veterans Trust Fund grant awards.

**Board bylaws do not ensure that meeting actions are documented and made available to the public.** The Board bylaws do not state that minutes will be made available to the public. The bylaws require each meeting to be tape recorded, however anyone wanting a transcript of the recording must pay the full costs, including staff time, of providing a transcript. Also, the Department reported that the transcripts are only available for the full Board meetings, but are not available

for committee meetings. While the Department does post some minutes on its website, as we described, there are two websites and neither contains complete minutes from the past year. The Department reported that due to changes with Federal Veterans Affairs regulations, the Department changed its web address, which included creating a new webpage for the Board, as of October 2013. Department staff confirmed that the new webpage is the primary website for displaying the Board's most up to date information. However, since the Department has not removed the old webpage nor added a link to the current webpage, an internet search currently leads a member of the public to the first webpage for the Board which does not contain the most recent Board minutes. In addition, we reviewed Department and Board policies and procedures and did not find any guidance for the Secretary of the Board for a timeframe in which to post minutes.

### **Why do these problems matter?**

The lack of notice to the public of either full Board or committee meetings makes it virtually impossible for interested members of the public to attend meetings and provide public comment on Board deliberations and decision making. The intent of the open meetings law is to allow the public to be fully informed and to be able to have meaningful participation in the Board's decision making process. Further, the purpose of the VTF committee meetings is to conduct an in-depth review of the grant applications and develop recommendations to the full Board on grant awards and the Board largely follows the recommendations of the VTF committee. As a result, the public, including grant applicants, should have the opportunity to attend Board and committee meetings and make public comment.

In addition, notifying the public of Board meetings and the VTF committee meetings and making complete, accurate meeting minutes available to the public in a timely manner would ensure that the grant award decision process is transparent. There is no record of the discussion held by the VTF committee during the past two grant cycles regarding the grants recommended for awards or the method used to determine the award amounts. Without documentation in Board and VTF committee meeting minutes, there is no written record of the rationale for the VTF committee's grant award recommendations, or the amount determined for each grant award.

Finally, the Board's grant award decisions may not be valid because the requirements of the open meetings law have not been met. Statute [Section 24-6-402(8), C.R.S.] states that, "no... formal action of a state or local public body shall be valid unless taken or made at a meeting that meets the requirements of subsection (2) of this section." Subsection (2) contains the requirements for announcing meetings and making minutes publicly available discussed above. Ultimately, not following the requirements set forth in the open meetings law

leaves the Board subject to challenge regarding grant award decisions and other Board decisions.

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### **Recommendation No. 4:**

The Board of Veterans Affairs (Board) should ensure compliance with Colorado's open meetings law by implementing changes to its meeting procedures and reflecting those changes in its bylaws as needed. Specifically, the Board should:

- a. Provide advance, public notice, with detailed agenda information whenever possible of all meetings involving two or more members of the Board to ensure the meetings are open to the public.
- b. Implement a process to ensure complete and accurate minutes of all meetings of two or more members of the Board are recorded, including detailed records of all votes on formal actions including grant award decisions.
- c. Implement a process to make meeting minutes accessible to the public in a consistent and timely way, such as posting the minutes on the Board's website within a specified time frame after the meeting.

### **Board of Veterans Affairs Response:**

- a. Agree. Implementation date: July 2014.

Board meeting notices and agendas are now posted on the Board's website. We will continue to post notices and we will continue to send an email notice to those organizations and individuals that ask to be on the Board Distribution list. Board bylaws are being amended to require posting of notices, agendas and minutes on the website.

- b. Agree. Implementation date: Implemented and ongoing.

Beginning in April 2014, transcript-like minutes with detailed votes on any non-unanimous decisions are recorded for all Board meetings.

- c. Agree. Implementation date: Implemented and ongoing.

Beginning in April 2014, minutes are posted on the Board's website during the week in which they are approved by the Board (normally the month following each meeting).

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## Preventing Conflicts of Interest

As previously discussed, the Board has an annual process for awarding VTF grants to eligible veterans' organizations in Colorado. The Department assists the Board in the review process, however the Board makes the final award decisions. A committee of the Board, the VTF committee, reviews the grant applications and develops an award recommendation list. The full Board then reviews the award recommendation list, discusses each award recommendation, and makes final grant award decisions.

Since the Board has broad oversight duties related to veterans' affairs in the State, it is important for members of the Board to be familiar with veterans' issues in Colorado. As a result, Board members are typically affiliated with veterans' organizations in the state, meaning that potential conflicts of interest exist, particularly with about 45 veterans' organizations applying for VTF grants annually. Currently, the process for Board members to disclose potential conflicts of interest is that each Board member completes a conflict of interest disclosure form once, when they are first appointed to the Board.

### **What audit work was performed and what was its purpose?**

We reviewed state statutes, Board bylaws and policies, Board meeting minutes from October 2011 through August 2013 (the time period that pertains to the Fiscal Year 2013 grant cycle), and Board members' conflict of interest disclosure forms for Board members on the Board in May 2012 (when grant award decisions were made for the Fiscal Year 2013 grant cycle). We also listened to audio recordings of Board meetings from January through June 2012, which coincides with the application and award process for the Fiscal Year 2013 grant awards. Finally, we conducted internet research to identify Board members' affiliations with veterans' organizations, and held interviews with Department staff and all current Board members to identify the Board's conflict of interest policies and procedures.

The purpose of this audit work was to identify whether any Board members that were on the Board during the review process for the Fiscal Year 2013 grant cycle took part in the review, discussion and/or voting on applications for which they had either disclosed a conflict of interest or had an apparent conflict of interest. We also determined whether the Board is adhering to Colorado Code of Ethics requirements [Section 24-18-102, C.R.S. and Section 24-18-108.5, C.R.S.] regarding conflicts of interest and whether the Board has adequate policies and procedures in place to identify and mitigate potential conflicts of interest. In particular, we assessed whether the Board's current policies and procedures are sufficient to prevent Board members from taking part in decision making on VTF grant applications if they have a conflict of interest.

## **How were the results of the audit work measured?**

Board bylaws (Section 8, Standards of Conduct) state that the Governor's policy statement on 'Standards of Conduct for Members of the Executive Branch' shall be a part of the bylaws and are attached to the bylaws. This statement refers to Executive Order D 021 09, Executive Branch Code of Ethics, which includes the following standards applicable to the Board regarding potential conflicts of interest:

- Board members shall not use public office to bestow any preferential benefit on anyone related to him or her nor bestow any preferential benefit on anyone based upon any business or social relationship.
- Board members shall not knowingly engage in any activity or business that creates a conflict of interest or has an adverse affect of the confidence of the public in the integrity of government.
- Board members shall submit a Conflict Disclosure Statement on or before June 30<sup>th</sup> of each year and shall disclose any new conflicts not more than 30 days after they arise.

Board bylaws (Section 7, Conflict of Interest) state, "Board members shall not perform any official act wherein they may have a direct economic benefit or a business or other undertaking in which such action has a direct or substantial financial interest. Where a conflict of interest is present, the member having such conflict shall fully disclose it on the record and shall refrain from taking any part in the decision on that action." This is consistent with Statute [Section 24-18-108.5(2), C.R.S.] that states that a member of a board, "shall not perform an official act which may have a direct economic benefit on a business or other undertaking in which such member has a direct or substantial financial interest." Statute [Section 24-18-102(7) and (4), C.R.S.] clarifies that an official act includes, "any vote, decision, recommendation, approval, disapproval, or other action, including inaction, which involves the use of discretionary authority," and financial interest is defined as, "a substantial interest held by an individual which is an ownership interest in a business; a creditor interest in a an insolvent business; an employment or a prospective employment for which negotiations have begun; an ownership interest in real or personal property; a loan or any other debtor interest; or a directorship or officership in a business."

## **What problem did the audit work identify?**

**Board members sometimes perform official acts that could potentially be perceived as conflicts of interest.** First, three of the Board members participated in grant award decision making for organizations with which they had an

affiliation that could constitute a “business or social relationship” and those organizations received grant awards. None of these three are current Board members, but were members at the time the grant award decisions were made for the Fiscal Year 2013 grant cycle. Specifically, one Board member was the volunteer commander of a veterans organization that applied for a grant, another Board member volunteered as second in command at an organization that applied for a grant, and a third Board member was a current member and past volunteer commander of an organization that applied for two grants. In the third instance, the Board member did not disclose his affiliation with the organization on his conflict of interest form. Based on our review of the audio tape of the May 2012 Board meeting where final award decisions were made, all three of these Board members were present for the discussion of the grant applications and took part in the vote on the final award decisions for these three organizations that received a total of \$77,300. We could not identify from the tape recordings which members specifically voted and the Board did not keep a written record of which members voted. However, the tape recordings did not identify any members who abstained or recused themselves from the final vote, so it appears that all the members present voted, including those members with an affiliation with an organization that received a grant award. Further, Board members we interviewed reported that all Board members vote on the final grant award list as part of the process.

Second, during our interviews, current Board members who were on the Board in May 2012 reported an instance in which a potential conflict of interest occurred. Specifically, the Board member who was the Commander of an organization that applied for a grant was allowed to advocate for the application, but was not allowed to vote. The Board decided to fund only one-third of the \$75,000 application, despite the member’s advocacy for the full requested amount.

Third, during the May 2012 grant award process two Board members served as Commissioners on the Veterans Nursing Home Commission. Applications for four Veterans Nursing Homes grants were submitted, and both of these Board members were involved in voting to award grants totaling \$52,725 to these nursing homes. Per statute [Section 26-12-402(7)(a), C.R.S.] Nursing Home Commissioners are responsible to ensure “... that the financial status of the homes is maintained on a sound basis.” Therefore, voting to approve grants to the nursing homes in question appears to be in conflict with the Board bylaw provision that Board members not use their position on the Board to bestow any preferential benefit on anyone based on any business or social relationship.

### **Why did the problem occur?**

The Board’s current policies and procedures related to conflicts of interest are not sufficient to ensure that all of the various potential conflicts of interest that Board

members may have due to their involvement with many of the organizations that apply for grants are recognized and addressed. Specifically:

- The Board does not have a specific procedure as part of its grant awarding process for Board members to disclose potential conflicts of interest. Members complete a conflict of interest form upon first being appointed to the Board but the Board and Department do not have a process to review the forms before reviewing and approving grant applications or otherwise discuss whether any members have potential conflicts and should recuse themselves from discussion and/or voting. A procedure to review and update the disclosures of any potential conflicts would help the Board decide on a way to mitigate any conflicts, if necessary, before grant decisions are made. In addition, although Board members are required by Board bylaws to update their conflict of interest forms annually and when a new conflict of interest arises, we found no evidence that Board members do so. Further, five of the seven current Board members we interviewed indicated they were not aware of the requirements to update their conflict of interest forms and Department staff reported they were not aware of that requirement either. As a result, even if the forms were reviewed before grant decisions were made, they may not be accurate.
- The Board's procedures for reviewing and awarding grants do not provide sufficient protection against members participating in situations that present either a real or perceived conflict of interest. Currently, the full Board does not discuss and vote on each individual application. Instead, the Board only discusses and individually votes on applications that members want to amend from the award recommendation list, such as when a member believes the recommended grant amount is too high or too low and suggests a modification to the amount. Then, the Board conducts one final vote to approve all the remaining applications on the list. As a result, to mitigate any conflicts of interest related to an application that was recommended by the committee to receive a grant and that the Board did not discuss individually, a Board member would have to recuse himself or herself from the final vote approving the full award recommendation list. We identified two alternatives the Board could use for voting on grants to ensure Board members recuse themselves from discussion and voting on grants to organizations with which they are affiliated. First, the Board could vote on each individual application rather than on the full award recommendation list and members who have conflicts could recuse themselves from the discussion and vote on an individual application basis. Second, the Board could separate out any applications from the award recommendation list that any member has a conflict with, vote on each of the separated applications individually to allow those members to recuse themselves in those cases, and then vote on the remaining award recommendation list as a whole. It would also be

important for the Board to document in writing all instances in which a Board member has an affiliation with a grant applicant, and each time a Board member recuses himself or herself from discussion and vote.

- The Board does not have a process to train members on statutes and bylaws associated with conflicts of interest. New Board members receive a copy of the Board policies and procedures, but do not receive any training on their responsibilities, either when first appointed or on any schedule thereafter. In our interviews with Board members, we found that some Board members do not appear clear on the policies and expectations related to preventing conflicts of interest. For instance, Board members reported being unclear about whether a member affiliated with an applicant should be allowed to advocate for the application even though the bylaws clearly state that Board members shall refrain from taking part in any part of the decision on the action, which would reasonably include advocating for a specific application.

### **Why does the problem matter?**

The Board is responsible for making grant award decisions for the Program and should work to ensure that funds are provided to veterans' organizations in a prudent and equitable manner. This notion is reflected in the Executive Branch Code of Ethics, when it states that Board members "shall not use public office to bestow any preferential benefit on anyone related to him or her nor bestow any preferential benefit on anyone based upon any business or social relationship." In addition, the Veterans Trust Fund has limited funds to provide needed services to veterans. As a result, it is critical the Board directs funds equitably and there is no real or perceived bias in the grant award decision making process. Without strong conflicts of interest policies and procedures, there is a risk that grant award decisions would be made based on members having affiliations with applying organizations rather than on an entirely objective evaluation of the merits of each application.

We recognize the value of Board members being connected to the veteran community and typically Board members have one or more affiliations with veterans' organizations in the state, including those that apply for grants. These range from direct affiliations such as those we outlined above, to much more indirect affiliations such as being a lifetime member of the American Legion or the Veterans of Foreign Wars. For the Fiscal Year 2013 grant cycle that we reviewed, all seven board members had some affiliation with veterans' organizations; three of those were direct such as being the volunteer Commander, and four of those were less direct such as being a member of Disabled Veterans of America, American Legion, and Veterans of Foreign Wars. Clear policies, procedures, and safeguards for Board members to follow in identifying and

properly addressing conflicts of interest reduce the risk that Board members could have undue influence in the grant making process to obtain financial gain for themselves, their employers, or for organizations with which they have a substantial business relationship. Because of this, the Board should have clear and effective conflict of interest policies and procedures to ensure that Board members with direct affiliations with applying organizations do not take any actions that create an apparent or real conflict of interest. These policies and procedures also need to provide the Board with a way to recognize and address the many other indirect affiliations that Board members may have.

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### **Recommendation No. 5:**

The Board of Veterans Affairs (Board) should improve its policies and procedures related to conflicts of interest in the Veterans Trust Fund Grant Program (Program) award process by:

- a. Establishing a process prior to the grant award review to discuss potential conflicts of interest, identify any affiliations that members might have with applicants, determine whether the affiliations create a conflict of interest, and implement ways to mitigate the potential conflicts. For each potential conflict of interest identified, the Board should determine whether the Board member will be allowed to discuss and vote on the application.
- b. Requiring Board members to update their conflict of interest disclosure forms annually and when circumstances change that might create a new conflict or eliminate one already reported.
- c. Modifying the grant award voting process to include a process that allows members with affiliations with organizations requesting a grant to abstain from discussion and official voting on the application, and a process for maintaining detailed documentation of the discussion of all potential conflicts of interest and instances in which Board members recuse themselves from discussion and votes.
- d. Providing training for new and existing Board members on their responsibilities to disclose and mitigate any potential conflicts of interest.

## **Board of Veterans Affairs Response:**

Agree. Implementation date: July 2014.

- a. While the members of the Board upon whom the observations were based are no longer on the Board, the points are well taken. Recommendation has been implemented and is ongoing with the May grant award meeting. Conflicts of interest and recusing oneself from discussions and voting on grant requests from prospective recipients with whom a member may have an affiliation was addressed prior to voting on the Fiscal Year 2015 grants in May 2014. The proposed amendment to the Board bylaws will better document and institutionalize the recommendation.
  - b. Annual updates of forms will occur in July as new members come on the Board. Proposed amendments to bylaws will require members to update forms annually and as changes occur.
  - c. Recommendation has been implemented and is ongoing with the May grant award meeting. This process of discussion of conflicts of interest and abstaining from discussion and voting on affected grants is in the proposed amendments to the Board bylaws.
  - d. Training for new and existing Board members on responsibilities to disclose and mitigate conflicts of interest are included in proposed amendments to Board bylaws.
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# **Appendix**

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## Appendix A

**Office of the State Auditor**  
**Summary of Findings Related to the SMART Government Act**  
**Veterans Trust Fund Grant Program Performance Audit**  
**Department of Military and Veterans Affairs**  
**May 2014**

The SMART Government Act [Section 2-7-204(5), C.R.S.] requires the State Auditor to annually conduct performance audits of one or more specific programs or services in at least two departments. These audits may include, but are not limited to, the review of:

- The integrity of the performance measures audited.
- The accuracy and validity of the department's reported results.
- The overall cost and effectiveness of the audited programs or services in achieving legislative intent and the department's goals.

The performance audit relating to the Veterans Trust Fund Grant Program was selected for focused audit work related to the SMART Government Act. This document outlines our findings related to the integrity and reliability of performance measurement for the Department of Military and Veterans Affairs (Department's) Veterans Trust Fund Grant Program (Program). We have presented our findings as responses to six key questions that can assist legislators and the general public in assessing the value received for the public funds spent by the Program.

### **What is the purpose of this program/service?**

Section 28-5-709, C.R.S., established the Veterans Trust Fund (VTF) and states that the monies in the VTF shall be used for:

- Capital improvements or needed amenities for state veterans nursing homes.
- Costs incurred by state veterans cemeteries.
- Veterans programs operated by nonprofit veterans organizations that meet criteria adopted by the Board of Veterans Affairs (Board) and selected by the Board as grant recipients.
- Costs incurred by the Department's Division of Veterans Affairs (Division).

To administer the Program the Board provides funding for veterans' nursing homes, veterans' cemeteries, and veterans' programs offered by nonprofit veterans' organizations through a competitive grant process.

### **What are the costs to the taxpayer for this program/service?**

The Program is entirely funded through Tobacco Master Settlement funds. According to statute [Section 24-75-1104.5(1), C.R.S., and Section 24-75-1104.5(5), C.R.S.], the Program receives 1 percent of the Tobacco Master Settlement Agreement funds up to a maximum of \$1 million each

fiscal year. However, statute requires that a portion of the funds remain as principal in the VTF. Currently, statutes [Section 28-5-709(3)(c), C.R.S.] require 10 percent of the Tobacco Master Settlement Agreement funds allocated to the VTF each year remain in the VTF, leaving 90 percent, plus the interest earned by the VTF and grant funds not expended in the prior year, available for Program expenditures. In Fiscal Year 2013, \$933,000 in Tobacco Master Settlement Agreement funds, interest, and unexpended funds from the prior year was appropriated for the Program and \$892,100 was expended for grants and Division costs.

**How does the Department measure the performance of this program/service?**

The Department's Fiscal Year 2014 SMART Government Act strategic plan includes no performance measures related to the Program.

As discussed in Chapter 2 of the report, the Department has established one goal and two performance measures for the Program. The goal for the Program is reflected in the Department's internal strategic plan for Fiscal Year 2014: to increase the number of veterans' organizations receiving VTF grants by three per year. In addition, the Department routinely tracks and reports the number of instances of assistance provided by the Program and the total amount expended for the Program, which serve as measures, of a sort, of the Program's activity. An instance of service might include, for example, a veteran receives a payment to buy food and another to pay rent; these would count as two instances of assistance.

**Is the Department's approach to performance measurement for this program/service meaningful?**

As discussed in Chapter 2 of the report, we found the Department's goal and performance measures for this Program are not related to the number of veterans served and do not measure the impact of the Program on veterans. First, the goal of increasing the number of veterans' organizations that receive VTF grants does not indicate whether the program is performing efficiently and effectively or whether it is having an impact on veterans. Second, the Department does not measure the number of veterans served, the types of services provided, or how the services helped improve conditions for veterans. While the Department collects data on the number of instances of assistance provided by grantees, that information does not indicate the unique number of veterans served, the types of services provided, or how the assistance improved each veteran's situation. Recommendation No. 3 of the report addresses these issues.

**Are the data used to measure performance for this program/service reliable?**

As discussed in Chapter 2 of the report, we found that the Department does not capture key data points needed to measure the Program's performance. The Department has not developed data collection methods to obtain accurate, reliable data to track Program performance. Recommendation No. 3 of the report addresses this issue.

**Is this program/service effective in achieving legislative intent and the Department's goals?**

This audit raised concerns about the Department's effectiveness in providing assistance to veterans through the Program. As discussed in Chapter 2, the Board has awarded more than \$7 million in VTF grants to veteran organizations over the past 12 years since the Department became responsible for the Program and the Board prepares an annual report as required by statute. However, the Board is unable to demonstrate the effect the Program has had on the veterans served. Recommendation No. 3 states that the Department and Board should work together to develop and implement an overall performance measurement plan for the Program.

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