



Transmitted via e-mail

October 24, 2012

Mr. Peter James Gravett, Secretary  
California Department of Veterans Affairs  
1227 O Street  
Sacramento, CA 95814

Dear Mr. Gravett:

### **Review of the Veterans' Service Office Fund, Fund 0083**

At the request of the Governor's Office, the Department of Finance performed a review of the Veterans' Service Office Fund (Fund 0083) administered by the California Department of Veterans Affairs (CalVet). The purpose of the review was to determine whether fees collected from sales of the Veterans License Plates are being used in accordance with the authorizing statutes.

### **Results Summary**

CalVet is generally in compliance with the uses and restrictions as outlined in the California Vehicle Code. CalVet submits annual reports to the Department of Motor Vehicles (DMV) as required; however, annual expenditure amounts reported are not consistently supported by accounting records. We recommend CalVet review and reconcile reported amounts with accounting records to ensure accurate amounts are reported to DMV.

### **Scope and Methodology**

To determine if fees collected from sales of the Veterans License Plates are used in accordance with the authorizing statutes, we performed the following:

- Reviewed applicable laws, regulations, and criteria to identify authorized fund uses and restrictions.
- Interviewed key personnel at CalVet and DMV to gain an understanding of the fund accounting and reporting processes.
- Reviewed accounting records to determine if expenditures were in compliance with authorizing statutes.

### **Results**

The Veterans' Service Office Fund (Fund 0083) was established under Military and Veterans Code section 972.2 to be used by CalVet for allocation and disbursement to counties for the operation of county veterans' service offices. Pursuant to Vehicle Code section 5069, fees collected are distributed to Fund 0083 and to DMV for their administrative costs. See Exhibit 1 for the distribution of fees collected. In 2011, DMV reported 24,901 outstanding Veterans License Plates.

AUTHORIZED PER STATUTE	CalVet COMPLIANCE RESULTS
<p><b>AUTHORIZED USES</b>  <i>Military and Veterans Code section 972.2(b)</i>—The Veterans Service Office Fund shall be available, upon appropriation by the Legislature, to the Department of Veterans Affairs for <b>allocation and disbursement to counties for the operation of county veterans’ service offices.</b></p>	Yes
<p><b>EXPENDITURE LIMITATION</b>  <i>Vehicle Code section 5060(g)</i>—Shall not expend annually more than <b>25 percent</b> of those funds on <b>administrative costs, marketing, or other promotional activities</b> associated with encouraging application for, or renewal of, the special license plates.</p>	Yes
<p><b>REPORTING</b>  <i>Vehicle Code section 5060(h)(1)</i>—Every organization authorized under this article to offer special interest license plates shall <b>prepare and submit an annual accounting report</b> to the department by June 30. The report shall <b>include an accounting of all revenues and expenditures</b> associated with the special interest license plate program.</p>	No
<p><b>REQUIREMENT</b>  <i>Vehicle Code section 5060(d)(2)(A)</i>—If the number of <b>currently outstanding and valid special interest license plates</b> in any particular program...<b>is less than 7,500...DMV will no longer issue or replace</b> those special interest license plates.</p>	Yes

**CalVet Meets the Fund’s Authorized Uses and Limitations**

CalVet’s expenditures for Fund 0083 include operating expenditures, marketing and promotional costs, and disbursements to counties for the operation of county veterans’ service offices.

Pursuant to Vehicle Code section 5060(g), expenditures are restricted to a 25 percent administrative cap. CalVet considers the cap to only include administrative costs associated with marketing and promoting the license plates. CalVet does not include other non-marketing costs in their “administrative” cost cap and has reported administrative costs ranging from 4 to 6 percent in their annual reports to DMV.

However, administrative costs typically include other non-direct costs such as salaries or operating expenses for administrative staff, legal, accounting, and other non-program related units. Based on our review of Fund 0083 expenditures for the prior three years and classifying all marketing, promoting, and operating expenditures as administrative costs, CalVet still meets the 25 percent cap. Going forward, we recommend CalVet separately identify and track all direct and indirect salaries and operating expenditures to ensure full disclosure and compliance with the 25 percent administrative cap.

**Expenditures Reported to DMV Are Not Consistently Supported by Accounting Records**

Expenditure amounts included in the annual report to DMV are not consistently supported by CalVet’s accounting records. For example, in 2010 \$29,480 of the \$34,220 total reported as marketing costs was based on a purchase order only and not the actual expenditure. In addition, in 2011 CalVet reported local assistance disbursements of \$763,000, while the CALSTARS reports supported \$749,000, or \$14,000 less. We recommend CalVet review and reconcile amounts reported with accounting records to ensure accurate amounts are reported to DMV.

The results in this report are based on our review performed from September 2012 through October 2012. We provided the results to CalVet's management on October 16, 2012, and as necessary, updated the report to incorporate their responses.

We appreciate the assistance and cooperation of CalVet. If you have any questions regarding this report, please contact Diana Antony, Manager, or Lisa Negri, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA  
Chief, Office of State Audits and Evaluations

cc: Ms. Joy Hempstead, Chief, Financial Services Division, California Department of Veterans Affairs  
Mr. Andrew Conway, Chief, Registration Operations Division, California Department of Motor Vehicles  
Ms. Kitty Kramer, Program Manager, California Department of Motor Vehicles  
Mr. Jeff Mansur, Chief, Financial Services Branch, California Department of Motor Vehicles  
Mr. Jim Humes, Executive Secretary for Administration, Legal Affairs and Policy, Office of the Governor  
Ms. Sue Johnsrud, Director of Operations, Office of the Governor

## Exhibit 1 – Distribution of Fees Collected

