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Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

At the request of the Secretary of the Wisconsin Department of Veterans Affairs (DVA), we have completed a limited-scope review of Veterans Assistance Program services provided by the Center for Veterans Issues, Ltd., a not-for-profit organization. The Center assists veterans in obtaining stable employment and affordable housing and by coordinating other services available to them in Milwaukee, Racine, and Union Grove. It is funded primarily through federal grants; however, in 2003, 4.4 of its 41.4 full-time equivalent (FTE) staff were supported with state funds.

The number of veterans served by the Center decreased from 462 in 1999 to 365 in 2003, in part because those enrolled in the program participated longer. The percentage of veterans who were successfully discharged remained fairly constant at approximately 60.0 percent in each year. However, the Center did not meet DVA-established goals that 50 percent of veterans discharged from the program obtain employment that pays a living wage or that 75 percent have housing.

We analyzed the Center's financial condition and found that it has cash flow problems. In addition, we found that the Center greatly increased its outstanding debt by purchasing apartments in Racine to serve veterans and other low-income individuals. Because DVA may choose to reduce or eliminate future funding through the Veterans Trust Fund, the Center may have difficulty locating additional sources of revenue needed to meet matching requirements. We identified additional federal funds that do not require a match and are likely available to the Center, and we make recommendations for improving its financial management.

We appreciate the courtesy and cooperation extended to us by the Department and the Center for Veterans Issues.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller
State Auditor

JM/PS/bm

**VETERANS ASSISTANCE PROGRAM SERVICES PROVIDED
BY THE CENTER FOR VETERANS ISSUES, LTD.**

The Wisconsin Department of Veterans Affairs (DVA) provides qualified veterans and their families a broad array of services, including loans, grants, and education benefits. Most services are funded through the Veterans Trust Fund, which was created in 1961 as a segregated fund primarily for receipts from DVA's loan programs. DVA's fiscal year (FY) 2003-04 budget was \$168.6 million.

The Veterans Rehabilitation Program, which is now known as the Veterans Assistance Program, was created by 1993 Wisconsin Act 16 to assist homeless veterans and those at risk of becoming homeless in obtaining stable employment and affordable housing and to coordinate other services. It serves more than 400 homeless veterans annually through four Veterans Assistance Centers located in Tomah, King, Milwaukee, and Union Grove. The program's total budget for FY 2003-04 was \$2.1 million, which funded the Department's administration of the program and grants to vendors. Its services include temporary housing, meals, basic health and dental care, treatment for alcohol or other drug abuse and mental health issues, personal financial management, and employment counseling.

Since 1994, the Veterans Assistance Centers have operated under sole-source contracts with two vendors:

- the Veterans Assistance Foundation, Inc., a not-for-profit corporation with headquarters in Newburg, Wisconsin, manages the facilities in Tomah and King; and
- the Center for Veterans Issues, Ltd., a not-for-profit corporation with headquarters in Milwaukee, manages the facilities in Milwaukee and Union Grove.

Earlier this year, DVA officials expressed concern about the appropriateness of some of the housing services being provided by the Center for Veterans Issues, as well as concerns about that vendor's financial condition. Based on these concerns, they have withheld Veterans Trust Fund payments to the Center since January 2004. They also requested that we conduct a limited-scope review in which we:

- reviewed services provided by the Center;
- analyzed program accomplishments;
- reviewed compliance with program requirements;
- assessed the Center's financial condition; and
- reviewed future funding options.

Center for Veterans Issues

The Center was formed in the mid-1980s as an advisory group to agencies serving minority veterans. It began providing direct services in 1988 when it purchased two duplexes on Milwaukee’s north side—Vets Place North and Vets Place Park Hill—and collaborated with a not-for-profit anti-poverty agency, the Social Development Commission (SDC), to use these facilities as temporary housing and a place to provide support services to homeless veterans. The Center was incorporated as a not-for-profit organization in March 1989 and selected by DVA as a vendor for the newly-established Veterans Assistance Program in August 1994. In June 1994, it purchased and began renovating a former community hospital to provide temporary housing to veterans in Milwaukee.

Table 1 shows the purpose of each of the six facilities the Center currently operates. The majority of its services for veterans are provided through the veterans assistance centers in Milwaukee and Union Grove. The two apartment buildings the Center operates in Racine provide permanent affordable housing to veterans and other low-income individuals, which Center officials stated is an important part of the Center’s overall mission.

Table 1

Facilities Operated by the Center for Veterans Issues

Facility and Location	Purpose	Number Housed	Opened
Vets Place North—Milwaukee	Housing for Veterans	7	1988
Vets Place Park Hill—Milwaukee	Housing for Veterans	6	1988
Administrative Office—Milwaukee	Administrative Offices	0	1994
Veterans Assistance Center—Milwaukee	Housing for Veterans	83	1994
Veterans Assistance Center—Union Grove	Housing for Veterans	34	1998
Wynn/Sklba-Cocroft/Sims Apartments—Racine	Housing for Veterans and Other Low-Income Individuals	34	2003

In delivering program services, the Center for Veterans Issues works closely with two other not-for-profit organizations—SDC and the National Association for Black Veterans, Inc. SDC was created in 1963 to recommend solutions for social, economic, and cultural problems in Milwaukee. In 1964, it was designated as Milwaukee’s Community Action Agency under the federal Community Services Block Grant program. In this capacity, it receives federal funds for the operation of anti-poverty programs in Milwaukee County, including its own Veterans Coordination Project. In 2002, SDC reported revenues of \$30.7 million, of which approximately

\$156,000 was specifically dedicated to programs for veterans. The majority of its funds come from federal and state grants for programs such as Head Start and weatherization assistance for low-income persons.

The National Association for Black Veterans is a national membership organization based in Milwaukee that advocates on behalf of its members and is authorized by the federal government to act as a representative for veterans filing disability or other claims with the federal Department of Veterans Affairs. In 2002, it reported revenues of approximately \$120,500. The Center for Veterans Issues provides technical assistance to individual chapters of the National Association for Black Veterans, and the agencies' leadership overlaps. For example, two members of the Center's board—including the chief executive officer—are also founding members and directors of the National Association for Black Veterans.

In addition to its own programs and the technical assistance it provides to the National Association for Black Veterans, the Center has also been involved with other projects and services, including three projects provided through a facility owned by the National Association for Black Veterans:

- the Welfare, Health & Housing, Education & Employment, Rehabilitation, and Economic Development project, known as Project WHERE, provides affordable housing for veterans and their families, as well as counseling and other services for low-income individuals, with funds from the federal Department of Housing and Urban Development;
- a behavioral health clinic for low-income individuals, including veterans who are not eligible for benefits under other programs, coordinates mental health and alcohol and other drug abuse counseling services; and
- the Parents Assuming Responsibility (PAR) Program, a fatherhood initiative funded by the federal Department of Labor through October 2003, provided employment and training for non-custodial parents.

In addition, the Center collaborated with a number of organizations, including DVA, SDC, the National Association for Black Veterans, and the federal Department of Veterans Affairs to establish a mobile health clinic that delivers medical services and benefits counseling to veterans in southeastern Wisconsin who have limited access to transportation.

Finances and Staffing

As shown in Table 2, the Center's revenues increased 55.7 percent from 1999 through 2003, from \$1.7 million to \$2.6 million. Three federal agencies each increased their funding for the Center by more than \$300,000 during this period. In contrast, DVA's funding decreased more than \$340,000, or 47.2 percent.

Table 2

Center for Veterans Issues Revenue, by Funding Source
1999 through 2003

Source	1999	2003	Percentage Change
Grant Revenue			
U. S. Department of Veterans Affairs	\$ 349,500	\$ 834,600	138.8%
U. S. Department of Housing and Urban Development	401,900	739,600	84.0
U. S. Department of Labor	76,100	396,400	420.9
Wisconsin Department of Veterans Affairs	722,100	381,200	(47.2)
Social Development Commission ¹	20,500	47,100	129.8
Wisconsin Housing and Economic Development Authority	0	25,000	--
National Black United Fund	9,200	9,800	6.5
Other	0	2,000	--
Subtotal	1,579,300	2,435,700	54.2
Other Revenue			
Rental Income	58,200	73,900	27.0
Program Fees Paid by Veterans	8,600	39,800	362.8
Donations	8,300	22,800	174.7
Miscellaneous ²	2,900	7,600	162.1
Subtotal	78,000	144,100	84.7
Total	\$1,657,300	\$2,579,800	55.7%

¹ Does not include a 2003 credit of \$20,490 issued by SDC to the Center to offset staffing costs incurred by the Center.

² Includes vending machine revenue, interest, and other income.

As shown in Table 3, the Center's expenditures have paralleled its revenues, with expenditures increasing 51.0 percent, from \$1.7 million in 1999 to \$2.5 million in 2003. The Center does not typically track spending by revenue source.

Table 3

Center for Veterans Issues Expenditures, by Type
1999 and 2003

	1999	2003	Percentage Change
Staffing Costs			
Salaries	\$ 813,900	\$1,277,300	56.9%
Fringe Benefits	107,000	203,300	90.0
Subtotal	920,900	1,480,600	60.8
Other Costs			
Facilities Costs	176,900	360,500	103.8
Meal Program and Other Assistance for Veterans	116,100	201,100	73.3
Professional Services	163,900	194,800	18.9
Payments to National Association for Black Veterans	56,800	78,300	37.9
Payments to Social Development Commission ¹	83,000	81,400	(1.9)
Office Equipment and Supplies	45,200	42,000	(7.1)
General Expenses	51,900	37,100	(28.5)
Automobile Maintenance	17,800	19,800	11.2
Travel and Training	25,400	7,500	(70.5)
Subtotal	737,000	1,022,600	38.8
Total	\$1,657,900	\$2,503,200	51.0%

¹ Salaries and fringe benefit costs for 1.5 FTE staff who work for the Center but are employees of SDC. In addition, five individuals work for the Center but are paid directly by SDC.

In both 1999 and 2003, the majority of expenditures funded staffing costs, which increased by 60.8 percent. The substantial increase in facilities costs is largely attributable to the Center's March 2003 purchase of two Racine apartment buildings that it uses to provide permanent affordable housing for both veterans and other low-income persons. Travel and training expenditures decreased 70.5 percent, primarily because the Center's chief executive officer made fewer trips.

Increases in the Center's staffing costs from 1999 to 2003 reflect changes in staffing levels. Staffing increased 36.6 percent, from 30.3 FTE positions in 1999 to 41.4 FTE positions in 2003, as shown in Table 4. Center officials indicated that more than one-third of the Center's 2003

positions were funded by the federal Department of Housing and Urban Development. The 4.4 FTE positions funded by DVA through the Veterans Trust Fund included:

- 1.3 FTE food service positions;
- 1.0 FTE facilities and transportation manager;
- 0.9 FTE security position;
- 0.5 FTE grant writer;
- 0.5 FTE clothing donations coordinator; and
- 0.2 FTE case manager.

Table 4

Center for Veterans Issues FTE Staff Positions¹

Reported Funding Source	1999		2003	
	Number of FTEs	Funding Amount	Number of FTEs	Funding Amount
Department of Housing and Urban Development	13.0	\$390,900	15.2	\$ 535,900
United States Department of Veterans Affairs	11.2	293,300	12.9	417,900
Department of Labor	0.0	0	8.9	345,500
Wisconsin Department of Veterans Affairs	6.1	236,700	4.4	181,300
Total	30.3	\$920,900	41.4	\$1,480,600

¹ Does not include five individuals, including the Center's chief executive officer, who work for the Center but are employed and paid directly by SDC.

Largely as a result of rising health care costs, it is not unusual for fringe benefits to represent approximately one-third of an employer's salary costs. However, the Center's fringe benefit costs have historically been low, and in 2003 they represented only 15.9 percent of the \$1.3 million spent on salaries. Fringe benefit costs are low because approximately one-third of the Center's staff work less than the 20 hours per week required to qualify for health care benefits, and only 19 of 46 individuals who qualified for health care benefits were enrolled in health plans. Staff who receive health care benefits are required to pay 25.0 percent of monthly

premiums. For those enrolled in a health plan in 2003, the employee contribution ranged from \$86 to \$282 per month.

The Center’s grant agreement with DVA prohibits the Center’s use of subcontractors without the prior approval of DVA. Although both the provision and the Center’s use of subcontractors is long-standing, DVA has not previously expressed concerns about subcontracting. Nonetheless, at the request of DVA officials, we reviewed all funds transferred between the Center and the two organizations with which it has close working relationships: SDC and the National Association for Black Veterans. In 2003, these transfers totaled \$227,300.

As shown in Table 5, the Center paid SDC \$81,400 in 2003. Most of this amount funded staffing costs related to a 0.5 FTE grant writer position and a 1.0 FTE program manager. Center officials indicated that these individuals are SDC employees so that they can supervise other SDC staff who work in the Center’s facilities.

Table 5

**Payments to Social Development Commission
2003**

	Amount	Percentage Of Total
Staffing Costs		
Salaries	\$56,900	69.9%
Fringe Benefits	20,200	24.8
Subtotal	77,100	94.7
Other Costs		
Administrative Overhead	3,900	4.8
Equipment Maintenance	400	0.5
Subtotal	4,300	5.3
Total	\$81,400	100.0%

We asked whether these two individuals are considered SDC employees only so that they may receive the fringe benefits offered by SDC. In general, the Center and SDC offer similar fringe benefits packages, but there are two significant differences: SDC contributes 7.0 percent of staff wages to an employee pension plan, and 2.0 percent to a flexible fringe benefits plan. The Center does not provide these benefits to its employees. The costs of the pension and flexible benefits provided to both individuals totaled \$7,400 in 2003.

It should also be noted that in 2003, five other individuals, including the Center's chief executive officer, who worked exclusively for the Center were employed and paid directly by SDC. No funds were transferred between the Center and SDC for these positions. Center officials indicated that these staff were part of SDC's mission to help serve low-income veterans. Center officials reported that in 2003, SDC's staffing costs for these five positions totaled \$186,600, including \$78,700 in salary and benefits for the Center's chief executive officer.

The Center also paid \$78,300 to the National Association for Black Veterans in 2003. The Center's records indicated this amount included \$62,000 for publication costs related to the Association's quarterly magazine, and \$16,300 for general administrative costs to support the Association.

SDC paid the Center \$47,100 in 2003. The Center's staff indicated this amount included:

- \$33,400 for case management services provided by Center staff to non-veterans; and
- \$13,700 for costs associated with education and travel for enrolled veterans, such as technical college courses and city bus passes, which were funded under an SDC grant.

In addition, SDC credited \$20,500 to the Center to offset costs for short-term staffing assistance provided to SDC by Center staff.

Supporting the Use of Grant Funds

Based on concerns of DVA officials and the unusual financial relationships between the Center, SDC, and the National Association for Black Veterans, we reviewed the appropriateness and reasonableness of the Center's expenditures in 2003. Not-for-profit organizations such as the Center are subject to specific rules found in federal Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations*. Under these rules, allowable costs generally are limited to what is reasonable and proper for program purposes. Although some costs, such as political contributions, are never allowable, most costs are generally allowable if they:

- do not exceed the costs that would be incurred by a prudent person;
- are ordinary and necessary to the operation of the agency;
- are incurred in accordance with the agency's established procurement policy; and
- are supported by the agency's accounting records and adequate documentation.

To assess compliance with federal requirements, we reviewed the Center's general ledger for 2003, which reflects all expenditures and revenues in that year. We requested additional documentation and explanation from the Center for expenditures that seemed unusual, either because of their amount or their nature. Based on our review, we identified approximately

\$14,600 in costs that would not be allowable under federal regulations if paid with federal grant funds. These included:

- \$13,000 paid to a board member of the National Association for Black Veterans who works in Virginia;
- \$770 in advertising costs associated with a National Association for Black Veterans event recognizing the service of veterans;
- \$360 for overdraft charges related to the Center's three checking accounts;
- \$271 in penalties for late payments the Center made to the Department of Workforce Development for unemployment compensation premiums, and to the Department of Revenue for taxes;
- \$130 paid to the Virginia Department of Transportation for an undocumented purpose;
- \$100 for costs associated with a traffic citation issued in Shorewood; and
- \$15 donated to a local charitable organization.

In addition, we identified two categories of 2003 expenditures that we believe were excessive, including \$64,600 for telephone services and \$2,900 for bank service fees related to three non-interest-bearing checking accounts. We believe that the Center did not make an adequate effort to obtain lower-cost services. Officials acknowledged that these costs were high and indicated that they have recently begun negotiating lower fees for telephone and banking services.

Because the Center had private sources of income that totaled more than \$100,000 in 2003, these expenditures could have been paid by this income. However, given that the Center has begun to provide more permanent affordable housing and to serve more non-veterans who are ineligible for some of the funds it receives, we believe that more should be done to connect individual costs to specific funding sources in order to ensure adequate accountability for future expenditures of state and federal funds.

☑ Recommendation

We recommend the Center for Veterans Issues modify its accounting practices to connect individual expenditures to specific funding sources so that the appropriate use of state and federal funds can be fully supported.

Program Services

The Veterans Assistance Program is intended to accomplish three broad goals:

- reducing homelessness among Wisconsin veterans;
- helping veterans transition into mainstream society; and
- determining the long-term employment and housing needs of Wisconsin veterans.

In general, homeless veterans who complete the program participate for two to five months. To assist veterans in accomplishing the program's goals, the Center's staff complete case management plans to coordinate services and monitor progress. Veterans participating in the program are provided with a broad array of services, including:

- alcohol and other drug abuse testing and counseling;
- referrals to medical services provided by hospitals and clinics, primarily those operated by the federal Department of Veterans Affairs;
- mental health assessments and referrals to mental health service providers;
- vocational assessments and counseling;
- legal assessments and assistance;
- assistance in obtaining veterans benefits;
- assistance in developing a savings plan, with the goal of saving between 50 percent and 70 percent of earnings while participating in the program; and
- safe housing, meals, and clothing.

The provision of services typically continues until participants complete the activities specified in their case management plans and are discharged from the program. However, some leave the program earlier. Participants may leave for a variety of reasons. For example, some leave because they have found a job and can afford their own housing; others leave because they have qualified for disability benefits or because they are unable to conform to certain program requirements, such as abstaining from alcohol and other drugs.

Assessing Program Performance

To assess overall program performance, we analyzed available information on:

- the number of veterans enrolled;
- the percentage of participants who successfully complete the program;
- the extent to which participants who complete the program return for additional services; and
- whether measurable program outcomes have been achieved.

For comparative purposes, we reviewed information on the four principal sites through which the Veterans Assistance Program provides services. As noted, the Center for Veterans Issues operates sites in Milwaukee and Union Grove, while the Veterans Assistance Foundation operates sites at Tomah and at King. While both vendors generally provide the same types of services, participants in Milwaukee and Union Grove often require more intensive services.

As shown in Table 6, the number of individuals enrolled at all locations has generally declined over time. The number of enrolled veterans served by the Center in Milwaukee and Union Grove declined by 21.0 percent.

Table 6

Participants in the Veterans Assistance Program¹

Location	1999	2000	2001	2002	2003	Percentage Change
Center for Veterans Issues						
Milwaukee	383	352	361	302	275	(28.2%)
Union Grove	79	76	90	85	90	13.9
Subtotal	462	428	451	387	365	(21.0)
Veterans Assistance Foundation						
Tomah	228	230	246	181	240	5.3
King	100	96	82	82	73	(27.0)
Subtotal	328	326	328	263	313	(4.6)
Total	790	754	779	650	678	(14.2)

¹ Includes newly admitted and continuing participants.

The reason for this decline cannot be determined from available data, which were limited because DVA's new computer system that records such data is not yet fully operational. However, program administrators have indicated that openings are generally filled quickly when participants are discharged. Therefore, the overall enrollment decline is likely the result of an increase in the amount of time veterans stay in the program.

DVA has established several criteria by which a veteran can be determined to have successfully completed the program, including:

- completing a case plan, obtaining housing, and either obtaining employment or attending school;
- obtaining housing and becoming eligible for Social Security Income or Veterans Administration Compensation or Veterans Administration Pension programs, which provide cash benefits;
- being referred for residential treatment; and
- failing to comply with all program requirements, but having housing and being employed or attending school at the time of discharge from the program.

Using these criteria, DVA's goal for the program is to achieve a 60.0 percent success rate. As shown in Table 7, the percentage of program participants who were successfully discharged in 2003 varied from 73.7 percent at the Union Grove facility to 55.2 percent at the Milwaukee facility. Both of these locations were operated by the Center. Staff of DVA and the Center believe that the success rate has been somewhat lower for the Milwaukee site because Milwaukee's unemployment rate is higher than for other sites and participants have greater needs for mental health and alcohol and other drug abuse counseling.

Table 7

Individuals Successfully Discharged from Veterans Assistance Program

Location	1999	2000	2001	2002	2003
Center for Veterans Issues					
Milwaukee					
Number Successfully Discharged	192	163	145	132	122
Percentage Successfully Discharged	60.8%	58.0%	50.9%	57.1%	55.2%
Union Grove					
Number Successfully Discharged	29	39	58	43	42
Percentage Successfully Discharged	64.4%	81.3%	85.3%	71.7%	73.7%
Subtotals—Center for Veterans Issues					
Number Successfully Discharged	221	202	203	175	164
Percentage Successfully Discharged	61.2%	61.4%	57.5%	60.1%	59.0%
Veterans Assistance Foundation					
Tomah					
Number Successfully Discharged	105	114	107	76	125
Percentage Successfully Discharged	69.1%	65.1%	58.8%	66.7%	73.5%
King					
Number Successfully Discharged	55	58	53	41	29
Percentage Successfully Discharged	90.2%	78.4%	82.8%	73.2%	65.9%
Subtotals—Veterans Assistance Foundation					
Number Successfully Discharged	160	172	160	117	154
Percentage Successfully Discharged	75.1%	69.1%	65.0%	68.8%	72.0%

As shown in Table 8, veterans who were served by the Center are somewhat more likely to return to the program than those served by the other vendor. For example, 51.5 percent of Milwaukee veterans discharged by the Center in 1999 have returned to the program through 2003. The significant rate of return for Milwaukee veterans may be related to the number and severity of their needs. The number and percentage of returnees generally declined over time, mostly because those discharged in later years have had less time in which to return to the program than those discharged in earlier years.

Table 8

Successfully Discharged Veterans Who Returned to the Program

Location	Year of Discharge				
	1999	2000	2001	2002	2003
Center for Veterans Issues					
Milwaukee					
Number Who Returned	101	77	65	42	20
Percentage Who Returned	51.5%	46.4%	43.9%	30.4%	18.0%
Union Grove					
Number Who Returned	9	12	16	9	8
Percentage Who Returned	39.1%	52.2%	30.8%	27.3%	23.5%
Subtotals—Center for Veterans Issues					
Number Who Returned	110	89	81	51	28
Percentage Who Returned	50.2%	47.1%	40.5%	29.8%	19.3%
Veterans Assistance Foundation					
Tomah					
Number Who Returned	38	39	34	18	14
Percentage Who Returned	34.9%	38.6%	32.1%	26.1%	11.1%
King					
Number Who Returned	11	18	18	10	1
Percentage Who Returned	21.6%	30.5%	35.3%	25.6%	3.7%
Subtotals—Veterans Assistance Foundation					
Number Who Returned	49	57	52	28	15
Percentage Who Returned	30.6%	35.6%	33.1%	25.9%	9.8%

Finally, we analyzed whether three additional quantifiable program outcomes established by DVA have been achieved. First, the program is intended to annually make contact with at least 2,000 homeless or “at risk” veterans statewide. Data reported by program vendors indicate that this objective was achieved in every year, with more than 3,000 contacts being made in each year with the exception of 2000. The vast majority of contacts were made in Milwaukee by the Center.

In addition, DVA created two measurable objectives for those enrolled veterans who were provided with services before being discharged:

- 50 percent should obtain employment that pays a living wage; and
- 75 percent should have housing.

To assess progress in achieving these objectives, DVA reviews housing and employment information from the Northeast Program Evaluation Center, a private organization that conducts annual evaluations for federally funded veterans assistance programs. The data reported by this organization are useful, but they do not include information on former program participants' earnings or length of time in jobs and therefore cannot be used to determine whether veterans have obtained jobs that pay a living wage.

DVA's objectives for employment and housing were generally not achieved, as shown in Table 9. However, the Center's performance related to both employment and housing improved from federal fiscal year (FFY) 1999-2000 to FFY 2001-02. In contrast, the performance of DVA's other vendor, the Veterans Assistance Foundation, declined over this period. Compared to other veterans assistance programs nationally, the Center's achievements in FFY 2001-02 were slightly below average for both jobs and housing.

Table 9

Successfully Discharged Veterans with Jobs and Housing

	FFY 1999-2000		FFY 2001-02	
	Percentage with Jobs	Percentage with Housing	Percentage with Jobs	Percentage with Housing
Center for Veterans Issues				
Milwaukee	28.2%	47.2%	33.3%	56.7%
Union Grove	68.8	56.3	42.3	50.0
Subtotal—Center for Veterans Issues	30.4	47.7	35.0	55.5
Veterans Assistance Foundation				
Tomah	35.3	62.5	22.8	55.3
King	43.4	81.2	28.0	75.4
Subtotal—Veterans Assistance Foundation	37.5	67.6	26.5	61.0
National Average	40.1	58.9	36.4	60.7

Source: Northeast Program Evaluation Center.

Duration of Services Provided

The contract between DVA and the Center indicates that the purpose of the Veterans Assistance Program is to provide transitional housing and supportive services, but the contract does not define “transitional” or identify the typical length of time veterans would be expected to participate in the program. DVA officials have raised concerns about the use of program funds to provide permanent affordable housing.

Therefore, we reviewed relevant federal regulations for program criteria and found that regulations associated with the Homeless Veterans Providers Grant and Per Diem Program limit program participation to no more than two years. Veterans may stay in the funded program longer than two years if permanent housing has not been located or if the veteran requires additional time to prepare for independent living. However, federal regulations prohibit providing funding to transitional housing facilities in which more than half of the veterans have resided at the facility for longer than two years.

Because DVA is in the process of implementing a new computer system, limited data were available to us during the course of our review. Therefore, we were not able to verify the Center’s compliance with federal regulations. However, based on the information we were able to review, it appears unlikely that more than half of the veterans served by the Center for whom federal per diem funds were claimed would have been enrolled for more than two years.

In addition to the transitional housing it provides to approximately 100 veterans at any given time, the Center also provides permanent affordable housing to some individuals. The number of rooms allocated for this purpose increased from 24 in 1999 to 58 in 2003, with the opening of the Racine apartments. DVA officials have indicated that they are concerned about the Center’s decision to provide permanent affordable housing to veterans, rather than focusing on the program’s goal of providing transitional housing. Until recently, Center officials indicate they were not aware of DVA’s concerns and note that their program is in compliance with federal requirements for the type of housing provided because federal funds are not claimed for non-veterans or anyone who is provided with permanent affordable housing.

☑ Recommendation

We recommend that the Department of Veterans Affairs specify in future contracts with all vendors the maximum time services may be provided to veterans using the Department’s funds.

Financial Condition

The Center’s independent auditor expressed unqualified opinions on its financial statements for 1999 through 2002. In addition, in 2002 and 2003, reviews by the federal Department of Veterans Affairs did not identify any significant concerns with the Center. Nevertheless, the Center has experienced cash flow problems that are common to many not-for-profit organizations that operate primarily on a reimbursement basis.

To assess the Center’s financial health, we reviewed four measures that are frequently used in evaluating the financial condition of not-for-profit organizations:

- the available funds ratio;
- the amount of outstanding debt;
- the level of administrative expenditures; and
- diversity of funding sources.

The available funds ratio analyzes an organization’s liquidity by comparing its year-end cash balance to its short-term liabilities. As shown in Table 10, the Center’s available funds ratio has consistently fallen below the accepted standard of 0.75. This indicates that the Center has routinely experienced cash flow problems.

Table 10

Center for Veterans Issues Available Funds Ratio

Year	Year-End Cash Balance	Current Liabilities	Available Funds Ratio
1999	\$ 1,000	\$187,400	0.01
2000	600	227,100	<0.01
2001	8,000	175,700	0.05
2002	34,000	207,300	0.16

The Center’s cash flow problems appear to be continuing. The Center’s chief executive officer made a personal loan of \$15,000 to the Center in September 2002 to help fund operating costs. In addition, the Center paid \$360 in bank overdraft fees and \$271 in late payment penalties in 2003, as noted.

To help stabilize the Center’s financial condition, officials are working to establish a contingency fund to address emergency needs, such as unanticipated building maintenance costs. Estimates of appropriate contingency funding levels vary widely, but a number of governmental entities attempt to establish a contingency fund equal to approximately 10.0 percent of annual expenditures. DVA indicated that it would not support the use of Veterans Assistance Program funds for this purpose, and most grantors expect that all grant funds will be spent on program services rather than establishing reserves. As a result, the Center reported it is planning a three-year fund drive with the

goal of establishing a \$250,000 contingency fund through the formation of a friends group and with grants from private foundations and corporations.

As shown in Table 11, the Center's outstanding debt also increased considerably from 2002 to 2003 when the Racine apartments were purchased. To purchase the \$720,000 apartments in March 2003, the Center borrowed \$643,000 under two mortgages. In addition to its mortgages, the Center has loan payments totaling \$714 per month for two of four vans it owns.

Table 11

Center for Veterans Issues Outstanding Debt

Year	Outstanding Debt
1999	\$ 28,400
2000	52,400
2001	29,800
2002	30,600
2003	649,700

The first of the Center's two mortgages is a five-year note with a commercial lending institution that totals \$568,000. It is due in April 2008, at which time the Center will be required to refinance the balance. The second mortgage is a 10-year note with the previous owner that totals \$75,000. It is due in April 2013. The Center's payments on the two mortgages totaled \$15,500 in the first quarter of 2004, when rental income from the apartments totaled \$28,900.

As shown in Table 12, the Center's reported administrative costs as a percentage of total expenditures decreased from 9.7 percent in 1999 to 5.9 percent in 2002, the most recent year for which data were available. In comparison, DVA's other vendor for the Veterans Assistance Program reported that 7.4 percent of its 2002 expenditures were administrative costs.

Table 12

Center for Veterans Issues Administrative Costs

Year	Percentage of Total Expenditures
1999	9.7%
2000	7.6
2001	6.6
2002	5.9

Source: Internal Revenue Service Form 990.

Administrative costs typically include the salary of the chief executive officer or executive director and his or her staff, board meeting expenses, routine legal and accounting services, liability insurance, preparation of annual reports, and other centralized services. However, because the salary of the Center's chief executive officer is paid directly by SDC, it is not included in the Center's expenditures and is therefore not reflected as an administrative cost. Such a funding arrangement is highly unusual. Furthermore, officials of the Center report they have not categorized any staffing costs as administrative costs since 1999.

Finally, we analyzed the number of sources from which the Center received funding during the past five years. We found that the number of grants received increased from six in 1999 to nine in 2003 and that in 2003 no single grant represented more than 32.4 percent of its total revenue. In addition, the amount of funds the Center received from its existing sources increased for five of its six grants. As a result, the Center's total grant funding increased from \$1.6 million in 1999 to \$2.4 million, or by 54.2 percent. We also found that other sources of revenue received by the Center, such as rental income and program fees paid by veterans, increased by 84.7 percent. However, these other sources provided more limited revenue and totaled \$144,100 in 2003.

Future Funding Considerations

Because homelessness among veterans has been a long-standing problem, funding to address this issue will likely continue to be requested. However, DVA officials have expressed concerns about the declining amount of revenue available through the Veterans Trust Fund, which is currently one source of funding for the Veterans Assistance Program. The cash balance of the Veterans Trust Fund declined from \$40.9 million in FY 2001-02 to \$34.0 million in FY 2002-03, or by 16.9 percent. Given this trend, DVA is concerned about its ability to continue to fund the Veterans

Assistance Program at current levels and may further reduce or eliminate funding to the Center in the future.

Loss of state funding could create significant problems for the Center, because some of the federal grants it receives require matching funds. For example, the Department of Housing and Urban Development, which provided 28.7 percent of the Center's total revenue in 2003, requires grantees to provide a 25.0 percent cash match for supportive services and a 75.0 percent match for operations. The Center currently uses DVA funds to meet matching requirements for several of its federal grants, and Center officials are concerned that further reductions in DVA funding may jeopardize the Center's ability to meet these matching requirements. Consequently, if funds provided by DVA are reduced further, the Center will need to obtain other sources of revenue to match federal funds or face substantial reductions in its overall funding level, which would likely require reductions in the number of veterans served.

To assist the Center, we analyzed options to enhance the amount of federal funds available to it that do not require a match. As noted, the Center receives grant funds from the federal Department of Veterans Affairs under the Homeless Veterans Providers Grant and Per Diem Program. This program was established in 1994 to help fund supportive housing facilities for homeless veterans. The federal per diem program supports service providers, such as the Center, by providing funding on a monthly basis for veterans enrolled in the program. The amount of funding provided is based on program occupancy and is currently equivalent to a maximum of \$27.19 per day for each enrolled veteran. Costs eligible for reimbursement under the federal per diem program include:

- staffing costs for those who assess the needs of veterans and refer them to appropriate medical, educational, and volunteer services;
- transportation of veterans to medical appointments, educational activities, volunteer opportunities, and employment;
- maintenance of housing units;
- resident food costs; and
- security services.

In 2003, the Center received a total of \$834,600 under the program. This included \$717,600 to provide services for the 72 veterans housed at the Veterans Assistance Center in Milwaukee and the 30 veterans housed in Union Grove, as well as \$117,000 for capital improvements to its Milwaukee facility.

In reviewing options for enhancing program funding, we determined that additional federal funds would be available to the Center, but they have not been sought. Specifically, we found that the Center could increase its Veterans Assistance Program funding by applying for federal per diem funds for 15 beds it uses to house veterans, but for which it has not claimed funding. The Center is currently authorized to receive federal per diem funding for 102 beds provided through its

transitional housing facilities in Milwaukee and Union Grove. In addition, the Center provides transitional housing through 4 additional beds it makes available at its Union Grove facility, and offers housing through 11 single-occupancy rooms located at its Milwaukee facility. Because the Center has not provided the veterans it serves through these 15 beds with case management services, it has not applied for federal funds for their care. However, we confirmed with federal officials that services for these veterans would likely be eligible for federal reimbursement if case management plans are prepared for the veterans and they have not been in transitional housing for longer than 24 months.

We estimate that if the Center had applied for and received per diem funding for the additional veterans it served in 2003, it could have received as much as \$128,600 in additional federal funds. Although the Center would have to develop case management plans for these individuals if it seeks federal funding, we believe the additional effort associated with developing case management plans for a few additional veterans would be more than offset by the additional funds that could potentially be obtained.

☑ Recommendation

We recommend the Center for Veterans Issues, Ltd., apply for additional federal funding for the individuals it currently houses, but for whom funding has not been sought, under the federal Homeless Veterans Providers Grant and Per Diem Program.
