



Vermont State Auditor

21 January 2020

2020 STRATEGIC PLAN
and
2019 PERFORMANCE REPORT

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Vermont State Auditor

OVERVIEW

The purpose of this document is to describe the mission of the office, the goals and objectives that flow from the mission, and the performance measures used to evaluate our progress. The report is required by the Legislature [32 VSA §307(c)], and we are pleased to fulfill our obligation.

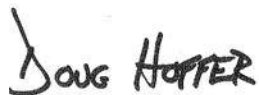
The goals, measures, and targets in this document were developed by the management team in the State Auditor's Office (SAO). In doing so, we considered the SAO's mission and guiding principles and conducted research on how other federal and state audit organizations measure performance. Targets were developed based on expected budgetary resources and reflect management's prioritization of those resources.

We review the strategic plan annually and make changes as needed (with explanations of any changes).

The performance report summarizes the extent to which we achieved the targets in our strategic plan for each goal and measure for calendar year 2018.

The SAO website (<https://auditor.vermont.gov/>) contains an electronic version of this document as well as reports that we reference here, budget documents, and other information about the operation of the office. Paper copies of this document can also be requested from our office. I invite you to call or email me if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "DOUG HOFFER". The letters are slightly slanted and connected, with a large initial "D".

Doug Hoffer

2019 STRATEGIC PLAN

Mission Statement: The mission of the Auditor’s Office is to hold state government accountable and to ensure that taxpayer funds are used effectively and efficiently. And, in all our work, we seek to identify and prevent waste, fraud, and abuse.

Guiding Values: The Vermont State Auditor’s Office is dedicated to providing government entities, the Vermont Legislature, and the public with professional audit services that are:

- Useful,
- Timely,
- Accurate,
- Objective,
- Of high quality, and
- Performed in conformance with generally accepted government auditing standards.

In addition, the Office is committed to improving the professional skills of the staff, sharing knowledge with others, and maintaining a work environment that is ethical, supportive, respectful, collaborative, and productive.

Office Profile:

Statutory Responsibilities: The state auditor is a constitutional officer, elected biennially. The auditor’s principal duties are defined by 32 VSA §163, 167, and 168. These duties include:

- Annual audit of the state’s financial statements - Comprehensive Annual Financial Report (CAFR);
- Annual federal Single Audit;¹
- Discretionary governmental audits, as defined by the U.S. Government Accountability Office;
- Discretionary post-audits of all expenditures, including disbursements to a municipality, school, supervisory union, school district, or court; and
- Audits or reviews as statutorily required by the Legislature.

¹ The US Office of Management and Budget’s Uniform Guidance contained in Title 2 of the Code of Federal Regulations requires non-federal entities expending \$750,000 or more in federal awards in a fiscal year to obtain an audit. A single audit consists of: (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity’s compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

Vermont taxpayers expect state government to provide cost-effective services. It is the job of the SAO to determine if publicly-funded programs are operating efficiently and meeting the goals and objectives established by the legislature. We do this by conducting performance audits. In the process, the SAO is always alert to the risks of waste, fraud, and abuse.

The audit of the state's financial statements (CAFR) and the federal Single Audit are conducted by CliftonLarsonAllen (CLA) under contract to the SAO. That allows the SAO to focus almost exclusively on performance audits, which provide objective analysis and recommendations to: 1) program managers to help improve service delivery; 2) policy makers to better inform decisions about resource allocation; and 3) the public, which has a right to know if taxpayer funds are being used effectively.

In addition to performance auditing, we have other responsibilities. For example, we work with CLA and state government entities to reduce findings in the federally mandated Single Audit. This improves the State's implementation of federal programs and reduces the cost of the Single Audit.²

In addition, our office will conduct reviews of certain aspects of state government. The decision to research a particular issue is made by the State Auditor. These [non-GAGAS investigations](#) will be rigorous and well-documented but need not meet generally accepted government auditing standards. In some cases, reviews may lead to or complement performance audits.

Staffing: The SAO is authorized to have 15 staff positions, including the State Auditor, three appointees (Deputy State Auditor, government research analyst, and private secretary), a financial manager, and 10 professional audit staff.

All professional audit staff have bachelor's degrees, six have master's degrees, and our Government Research Analyst has a PhD. In addition, seven of the audit staff have certifications in one or more professional areas, including Certified Public Accountant, Certified Internal Auditor, and Certified Information Systems Auditor.

Funding: Only 11% of funding for the SAO comes directly from the State's General Fund. Almost all the rest comes from the Single Audit Revolving Fund (SARF). Most state agencies and departments contribute to the SARF based on a formula reflecting their expenditures, revenues, and federal funding.

² Office of Management and Budget (OMB) regulations require states to re-audit programs that have material findings.

For the current fiscal year (2020), the Legislature appropriated \$3.6 million to fund the SAO, including \$3.177 million from the SARF, \$404,513 from the General Fund, and \$53,145 from the Special Fund.³

GOAL 1: PROMOTE GOVERNMENT ACCOUNTABILITY AND IMPROVE THE EFFICIENCY AND EFFECTIVENESS OF STATE GOVERNMENT THROUGH PERFORMANCE AUDITS AND REVIEWS

Measure 1a: Number of performance audit reports issued

Purpose: Performance audits identify opportunities for improvements in program delivery as well as potential savings and cost recovery.⁴ Audits may also deal with public safety or consumer protection.

Target: Performance audits vary in scope and complexity, so the number of audits completed in a given year will also vary. In addition, the timing of audit engagements will sometimes result in audits being initiated in one year and completed in the next, so this may lead to variances from year to year. Therefore, annual targets are based on the sum of completed audits and the fractions of audits underway but not yet completed.

- CY 2020 – 6 performance audits

Strategies:

- Continue to improve risk assessments and audit planning to avoid surprises regarding data availability or other issues that may increase the time required to complete an audit.
- Continue to define audit objectives as clearly as possible to provide meaningful recommendations while avoiding scope drift.
- Work with staff to improve writing skills to reduce time devoted to editing.
- Improve internal procedures for reviewing draft reports.

³ The Special Fund is funded by the Treasurer's Office and has been a portion of SAO's appropriation since FY2000. In the years prior to that, the SAO received an appropriation of a similar amount from the Retirement Trust Fund.

⁴ Cost recovery can be based on a contractual or statutory provision allowing the state to recover money from beneficiaries for failures to meet performance obligations (i.e., contractors, grantees, or recipients of tax incentives).

Challenges: We had a very productive 2019 but have two challenges ahead, which we discuss in the performance report below. Some of the factors that can affect the number of performance audits completed each year include the complexity of the audit topics, the number of entities involved, the availability of data,⁵ and the timeliness and content of management responses to audit findings.⁶

Measure 1b: Average cost of performance audits

Purpose: The SAO has limited staff and modest funding. Therefore, it is imperative that we maximize the value of our available resources. As noted above, performance audits vary in their scope and complexity but the average cost per audit is a fair measure of our ability to manage our resources.

Target: CY 2020 - \$200,000⁷

Strategies: The strategies outlined above in Measure 1.a. are also relevant here.

- Try to improve risk assessments and audit planning to avoid surprises regarding data availability or other issues that may tend to increase the time required to complete an audit.
- Continue to define audit objectives as clearly as possible to provide meaningful recommendations while avoiding scope drift.
- Work with staff to improve writing skills to reduce time devoted to editing.
- Improve internal procedures for reviewing draft reports.

Challenges:

While the cost per audit is a useful measure, concerns about efficiency cannot compromise the integrity of the audit process. Technically, there are no shortcuts; we must adhere to generally accepted government auditing standards as issued by the Comptroller General of the United States and the U.S. Government Accountability Office (see our [Professional Standards Manual](#) on the website).

⁵ For a variety of reasons, obtaining data from state entities and vendors can sometimes take more time than anticipated.

⁶ Draft audit reports are shared with auditees who are given two weeks to respond to the findings. Their responses are included in the audit report as appendices, and the SAO may comment on issues raised in the management response. It is not uncommon for management responses to be late, which delays the completion of the audit. Moreover, some management comments require additional work by audit staff to correct the report, or to defend a finding in response to a challenge by the auditee.

⁷ The Auditor's Office is now required to conduct audits of TIF towns. These audits are not as labor intensive as others so the average cost of all audits should decline somewhat. The prior figure was \$225,000.

Measure 1c: Value of identified savings or cost recovery

Purpose: In some cases, a performance audit will identify actual or potential savings or opportunities for cost recovery from contractors, grantees, or beneficiaries of incentive programs.⁸ Although not the only measure of the value of performance audits, savings are sometimes quantifiable. However, it is impossible to forecast such savings because we don't always know in advance what audits will be performed and, in any case, savings cannot be predicted before conducting the audits. Therefore, we will report savings and cost recoveries in the performance report but will not set targets.

Not all audits are about cost-effectiveness. Some relate to service delivery, public safety or consumer protection and, therefore, do not result in estimates of quantifiable savings. For example, a recent audit of the Child Protection Registry (CPR) found that 20% of all Supervisory Unions made no CPR checks and another 13% were not complete. By failing to check the CPR, an organization could unknowingly license or employ individuals who have abused or neglected children in the past. Fortunately, the Agency of Education has already begun expanding its assistance to schools, so we expect improvements very soon.

Target: NA

Strategy: In choosing audit topics, we will focus on those programs and entities that have a high operational or financial risk to the state, have had performance problems in the past, or have never been subject to a performance audit. We may also focus on public safety and consumer protection.

Challenges: None

Measure 1d: Percentage of audit recommendations implemented within one year and three years

Purpose: The SAO makes recommendations designed to improve the operations of state government. For our work to produce benefits, state entities and/or the General Assembly must implement these

⁸ Our audit of ten BGS capital projects found that costs for nine completed projects were \$24.6 million above the total estimated costs of \$92 million. The median cost overrun for these projects was 31 percent, with a range of 11 to 73 percent.

recommendations. The greater the number of recommendations implemented, the more benefit will be realized from our audit work. We have no power to compel state entities to implement our recommendations, but a measure of the quality and persuasiveness of our audits is the extent to which our recommendations are acted upon. Experience has shown that it takes time for some recommendations to be implemented. At present, we track recommendations one and three years after audit reports are issued.

Targets:

Percent of recommendations implemented within one year – 50%

Percent of recommendations implemented within three years – 75%

Strategy: Annually review auditee corrective actions in response to audit recommendations.

Recommendation follow-up will be performed for audit reports issued one and three years prior to the calendar year (e.g., the follow up in the 2019 performance report below is for audits issued in calendar years 2016 and 2018).

Challenges: Absent any authority to compel implementation, we have no direct control over this outcome measure.

Measure 1e: Number, potential savings, and outcomes from non-GAGAS investigations

Purpose: As noted above, the SAO conducts non-GAGS investigations in addition to performance audits. These investigations are intended to achieve the same goals as performance audits; namely, to identify opportunities to improve the value and effectiveness of state government.

Targets: As with performance audits, we cannot predict savings, but we will report potential savings or cost recoveries identified through non-GAGS investigations.

Targets:

Number of non-GAGAS investigations

CY 2020 – 4

Value of identified savings or cost-recovery – NA

Outcomes – NA

Strategies: The government research analyst reports directly to the State Auditor and works closely with the Deputy Auditor as well. In addition, both audit and non-audit staff will provide occasional assistance in the execution of non-GAGS investigations.

Challenges: None.

GOAL 2: COMPLETE MANDATED FINANCIAL AUDITS ON SCHEDULE

The financial audit must be completed by December 31st (CAFR⁹) and the federal compliance audit by March 31st at the latest (Single Audit¹⁰). The Commissioner of the Department of Finance & Management prepares the financial statements, which are audited by CLA (under contract to the SAO), and CLA also conducts the Single Audit.

Measure 2a: Complete the CAFR and Single Audit by the prescribed deadlines

Purpose: Although the SAO no longer conducts the CAFR and Single Audits, we work with CLA to help ensure that these audits are completed on time.

Target

FY 2020 – Both audits completed on time

Strategy: Actively monitor the process through status meetings with staff from CLA, the Department of Finance & Management, and other involved parties. We troubleshoot issues as they arise.

Challenges: Meeting the targets is dependent on CLA, and the state's financial management team.

⁹ <https://legislature.vermont.gov/statutes/section/32/003/00182>

¹⁰ [2 CFR, Part 200, Subpart F, §200.512\(a\)](#)

Measure 2b: Number of repeat Single Audit findings

Purpose: Under a contract with the SAO, CLA annually audits selected state entities to determine if they comply with federal requirements in a variety of control areas, such as program eligibility and cash management. Given the wide scope of this audit and the numerous requirements that are checked for compliance, it is not unreasonable for the state to have Single Audit findings. However, state entities should work hard to minimize the number of repeat findings to comply with federal requirements and, in some cases, reduce future audit costs.¹¹ The SAO cannot compel state entities to implement the Single Audit recommendations, but we can report the number of repeat findings and track changes over time. In addition, we will continue to work with the parties to emphasize the importance of avoiding repeat findings. Although history provides some guidance as to the frequency of repeat audit findings, we will not set targets as they are beyond our control.

Targets: NA

Strategy: Work with CLA to provide guidance to state entities on how to fix repeat audit findings.

Challenges: There is no penalty for not implementing Single Audit recommendations. In some cases, it is possible that the cost of implementing the recommendations could exceed the cost of the resulting re-audits, which is a disincentive to curing the problem.

Measure 2c: Number of Single Audit re-audits

Purpose: A significant driver of the cost of the Single Audit is the number of programs that must be audited. According to rules established by the federal Office of Management and Budget, some programs must be audited every year, such as Medicaid, while others are audited once every three years if they meet certain dollar thresholds.

Auditors issue adverse or qualified opinions in the Federal Single Audit when the State does not comply with federal programs in a way that can have a direct and material effect on those programs or undermines compliance with the requirements of those programs. When such opinions are issued, the non-compliant programs must be re-audited the next year, which adds to the State's auditing expenses.

The SAO has no direct means of influencing this measure, so we will track and report the number of re-audits but will not set targets.

¹¹ OMB rules mandate re-audits for most repeat findings.

Targets: NA

Strategy: Provide guidance to state organizations on how to minimize future re-audits and retain the authority to charge the entity the full cost of the re-audit if the failure to cure is avoidable.

Challenges: See Measure 2b Challenges above.

GOAL 3: NON-AUDIT SERVICES

Measure 3a: Number, type and outcomes of inquiries from legislators, municipalities, whistleblowers, and others

Purpose: The SAO regularly receives inquiries from various parties as well as comments, allegations and audit suggestions from whistleblowers. We respond to all such communications and provide information, technical assistance, and referrals as needed. The SAO cannot predict the number of such communications, but we can track them by type and outcome.

Targets: NA

Strategy: Respond promptly to all inquiries and requests for information.

Challenges: Time-consuming but a valued service to Vermonters.

Measure 3b: Satisfaction levels of those attending trainings supported by the SAO

Purpose: The SAO sponsors three trainings annually for financial professionals from the State, municipalities, schools, counties, and affiliated organizations. To gauge the usefulness of the trainings, we ask participants to evaluate the presenters and the presentations and tell us whether the information provided was clear and beneficial.

Targets:

2018 – NA (see below)

Strategy: Seek input from state and local government officials and associations on training needs that would improve financial competence across the state. Obtain evaluations from training participants.

Challenges: A range of officials and professionals from different entities attend the training. In addition to recruiting quality presenters / panelists, our continuing challenge is to plan sessions that will meet the needs of a diverse audience. Although the SAO assists CLA in planning the trainings, we do not conduct them, so we don't set targets for satisfaction.

CALENDAR YEAR 2019 PERFORMANCE REPORT

Goal 1: Promote government accountability and improve the efficiency and effectiveness of state government through performance audits and reviews

Goal	Performance Measure	Target	CY 2019 Actual
1.a.	Number of performance audits	6	5
1.b.	Average cost per completed audit	\$200,000	\$167,153
1.c.	Value of potential savings or cost recovery		
	i. Medicaid Dr. Dynasaur Program - Department of Vermont Health Access (DVHA)		DVHA did not know how much was owed in Dr. Dynasaur premiums; it paid \$2.4m in claims for delinquent members; and tried unsuccessfully to fix the problem for \$1.9m.
	ii. St. Albans City Tax Increment Financing District		We found multiple instances where St. Albans did not comply with Vermont law and rules.
	iii. Child Protection Registry (CPR): Agency of Human Services and contractors		Most AHS departments and contractors checked the CPR, but some did not. Of those with substantiated records of abuse, 11% were hired, but most were on the list mistakenly or had their records expunged.
	iv. Child Protection Registry (CPR): Agency of Education (AOE) and Schools		20% of all Supervisory Unions made no CPR checks; another 13% were not complete. AOE missed a number of checks as well.
	v. Winooski Tax Increment Financing District		City retained the correct amount of tax increment, paid the right amount to the Educ. Fund, and utilized tax increment for eligible purposes.
1.d.	Percent of recommendations implemented – see table on p.14		

Comments:

1.a.	The number of audits reported includes portions of those initiated in 2018 but completed in 2019, as well as audits initiated in 2019 but not yet completed. We count only the percent of each conducted in 2019.
1.b.	The cost of performance audits ranged from \$87,029 (Winooski TIF) to \$224,035 (Medicaid Premiums). This reflects substantial differences in scope and that some audits involve multiple departments.

Goal 1: Continued

Goal	Performance Measure	Target	CY 2019 Actual
1.e.	Number of completed non-GAGAS investigations	3	4
1.f.	Summary and value of potential savings or cost recovery as appropriate		
	i. Memorandum on government transparency	We found that less than half of the 38 entities in our sample provided up-to-date budget, performance or contracts documents on their websites.	
	ii. Where's the Money Flowing? Cost-Effectiveness of Lake Champlain Clean Water Efforts	A majority of clean water funding was allocated to low-impact infrastructure projects. We also identified data quality problems for assessing the impact of ICWI projects.	
	iii. Memorandum re: Evaluating OneCare's Community-Based Initiatives	OneCare did not satisfy the GMCB's criteria concerning community-based initiatives because it did not reliably monitor or accurately report them.	
	iv. Structural Weaknesses and Questionable Gains by Vermont's Remote Worker Grant Program	Program design is flawed, so it is difficult to measure performance. Execution was hurried and inconsistent, so it resulted in ineffective and inefficient use of funds.	

1.d. Percent of recommendations implemented

2016	Short Title	# of Recs.	# of Recs. Partially or Fully Implemented	Three-year Target	Actual
16-01	Public Defender Fees: Judiciary	7	7	75%	100%
16-02	Equalized Pupils: Agency of Education	7	4		57%
16-03	Personal Income Taxes: Dept. of Taxes	8	8		100%
16-04	Annual Performance Evaluations: Human Resources, Finance & Management, and Information & Innovation	13	13		100%
16-05	Alleged Beneficiary Fraud: Department for Children and Families	13	7		54%
16-06	Vermont Information Technology Leaders, Inc. (VITL)	7	7		100%
16-07	Vermont's Self-Funded Web Portal	5	4		80%
Total 2016 – Three Years Out		60	50		83%

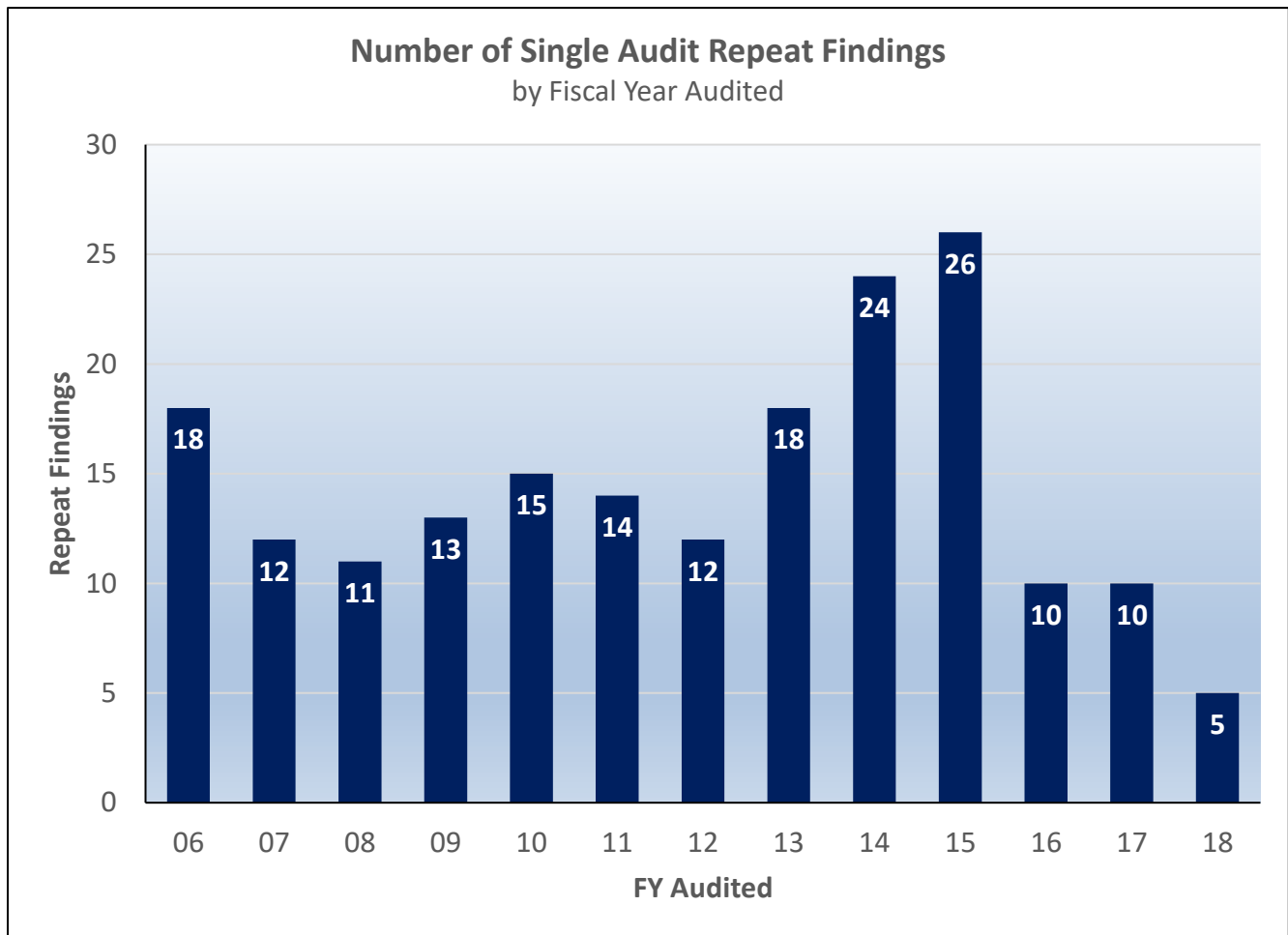
2018	Short Title	# of Recs.	# of Recs. Partially or Fully Implemented	One-year Target	Actual
18-01	Milton Town Core Tax Increment Financing District	0	NA	50%	NA
18-02	Municipal Bridge Inspections: Agency of Transportation (AOT):	2	2		100%
18-03	Best Management Practices Program: Agency of Agriculture, Food, and Markets (AAFM)	14	12		86%
18-05	Choices for Care: Dept. of Disabilities, Aging & Independent Living (DAIL)	8	3		38%
18-06	Abatements of Business Tax Liabilities: Department of Taxes (DOT)	10	10		100%
Total 2018 – One Year Out		34	27		79%

Goal 2.a: Complete mandated financial audits on schedule

Goal	Performance Measure	Target	FY 2019
2.a.i.	Complete the CAFR by statutory deadlines	12/31	On time
2.a.ii.	Complete the Single Audit by regulatory deadlines	3/31	On time

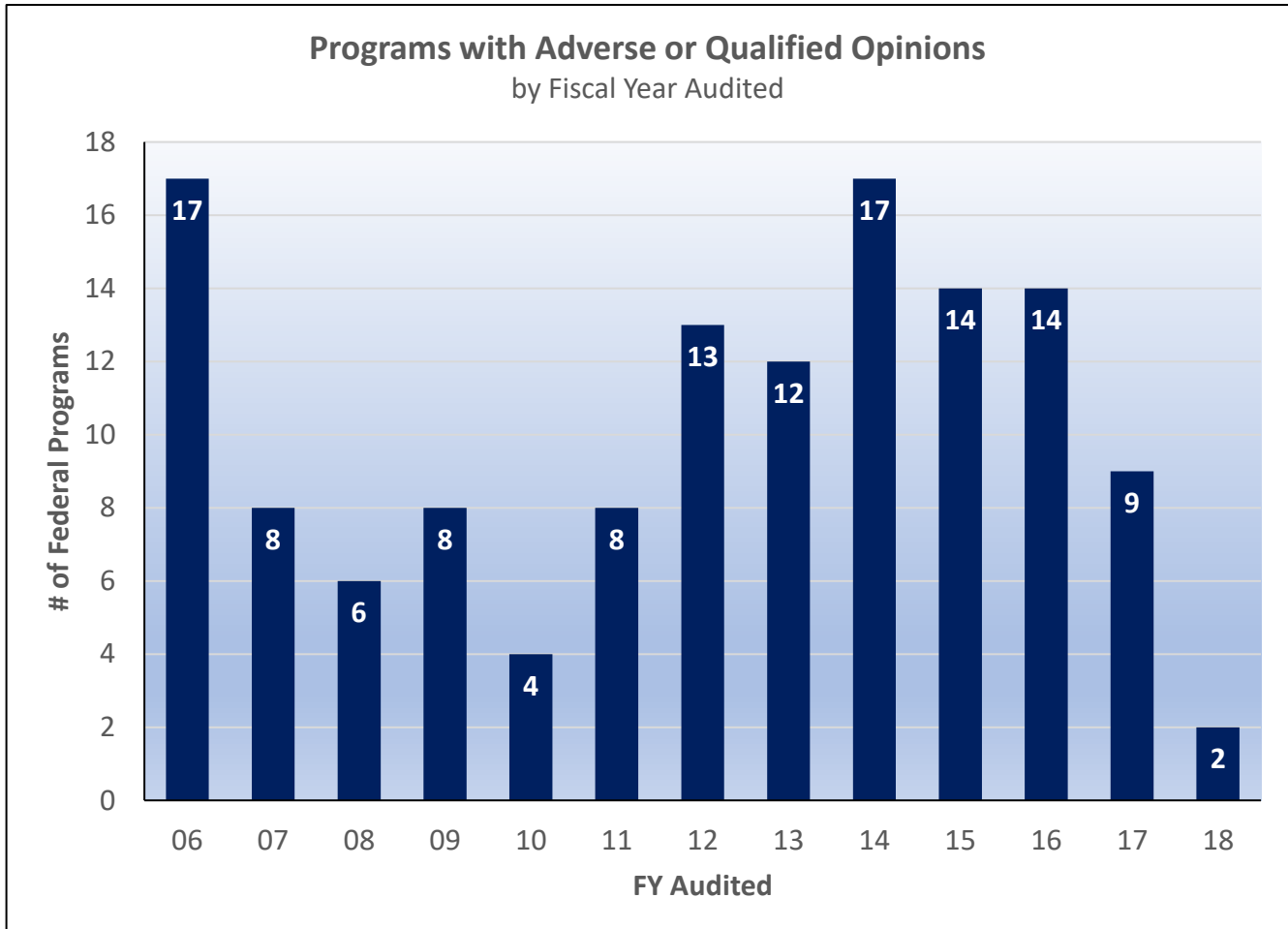
Measure 2b: Number of Repeat Single Audit findings

After declining for a few years, repeat findings increased significantly in FY 2013 and continued upward in FY 2014 and FY 2015. The dramatic decline in FY 2016 reflects changing standards from OMB and the hard work of State financial staff who now provide more and better guidance and support to the various state agencies and departments.



Measure 2c: Number of Programs with Adverse or Qualified Opinions

Auditors issue adverse or qualified opinions in the Federal Single Audit when the State does not comply with federal programs that have a direct and material effect on those programs. When such opinions are issued, the non-compliant programs must be re-audited the next year, which adds to the State's auditing expenses. An annual accounting of those opinions is shown in the graph below.



Fiscal years 2011 and 2012 had abnormalities in the number of programs audited and re-audited due to the American Recovery and Reinvestment Act (ARRA). Unfortunately, the number of required re-audits remained high for a period after ARRA, and re-audits pose additional costs to the State.

Recently, the Office of Management and Budget (OMB) raised the threshold for federally-funded programs subject to compliance audits from \$500,000 per fiscal year to \$750,000. The OMB also revised the criteria for determining which programs are considered high risk and tested as a major program. Together with better guidance and support from State officials, these changes reduced the

number of programs audited annually (along with some contractual changes with our outside audit firm) and eliminated some re-audit charges. FY 2019 figures will be available in March.

Goal 3: Non-audit services			
Goal	Performance Measure	Target	CY 2018
3.a.	Number, type and outcomes of inquiries from municipalities, whistleblowers, and others	---	66 Total
i.	Alleged welfare fraud	NA	12
ii.	Other whistleblower complaints	NA	16
iii.	Questions about audits and various state entities & activities	NA	22
iv.	Whistleblower complaints and questions about municipal, county, and school finances	NA	13
v.	Public records requests	NA	3
3.b.	Satisfaction levels of those attending trainings supported or co-sponsored by the SAO		
i.	SAO / CliftonLarsonAllen Trainings 2019	Attendees responded very favorably to all questions*	

* Questions included whether learning objectives were met; relevance of program materials; effectiveness of instructors; sufficient time to practice; rate as effective learning opportunity; and would recommend to colleagues. Averages were 3.3 or 3.4 out of 4 for all questions.

Comments re. Whistleblowers, complaints and inquiries:

3.a.i.	Fraud allegations are forwarded to the AHS fraud unit. According to AHS, three of the allegations were substantiated.
3.a.ii.	Other whistleblower complaints: Five re. private entities; three DCF; two AOT; and one each DAIL, DEC, DOL, DPS, F&W, and Tax. Some complaints were forwarded, and all the others were investigated.