



STATE OF VERMONT

Auditors' Reports as Required by *Uniform Guidance* and
Government Auditing Standards and Related Information

Year ended June 30, 2016

(With Independent Auditors' Report Thereon)

STATE OF VERMONT

Auditors' Reports as Required by *Uniform Guidance*, and
Government Auditing Standards and Related Information

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KPMG LLP
Suite 400
356 Mountain View Drive
Colchester, VT 05446

**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Speaker of the House of Representatives,
President Pro-Tempore of the Senate
And the Governor of the State of Vermont:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Vermont (the State), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 27, 2016. Our report includes an emphasis of matter paragraph noting that the State adopted the provisions Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinions are not modified with respect to this matter. Our report also includes a reference to other auditors who audited the financial statements of certain discretely presented component units identified in note IA of the State's basic financial statements, the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, and the Tri-State Lotto Commission, as described in our report on the State's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 2016-001 and 2016-002.



A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies: 2016-003, 2016-004, 2016-005, 2016-006, 2016-007, 2016-008, and 2016-009.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State's Response to Findings

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Colchester, Vermont
December 27, 2016



KPMG LLP
Suite 400
356 Mountain View Drive
Colchester, VT 05446

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Speaker of the House of Representatives,
President Pro-Tempore of the Senate
and the Governor of the State of Vermont:

Report on Compliance for Each Major Federal Program

We have audited the State of Vermont's (the State) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended June 30, 2016. The State's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

As described in note 1(a) to the schedule of expenditures of federal awards (the Schedule), the State's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule for the year ended June 30, 2016. Our audit, described below, did not include the operations of the entities identified in note 1(a) to the Schedule, because those entities had separate audits in accordance with the Uniform Guidance, if required.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the State's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified and modified audit opinions on compliance. However, our audit does not provide a legal determination of the State's compliance.



Basis for Qualified Opinions on Certain Major Federal Programs

As described in the accompanying schedule of findings and questioned costs, the State did not comply with certain requirements that are applicable to certain of its major federal programs, as detailed below. Compliance with such requirements is necessary, in our opinion, for the State to comply with requirements applicable to the identified major federal programs.

Table 1

State agency/ department name	Federal program name	Compliance requirements	Finding number	Page number
Agency of Human Services	SNAP Cluster	Special Tests and Provisions	2016-010	39
Agency of Education	Child Nutrition Cluster	Allowability, Eligibility, Suspension and debarment, Subrecipient Monitoring	2016-014	47
Agency of Education	Child Nutrition Cluster	Matching	2016-016	55
Agency of Human Services	Special Supplemental Nutrition Program for Woman, Infants and Children	Eligibility	2016-017	57
Agency of Education	Child and Adult Care Food Program	Eligibility, Suspension and Debarment, Subrecipient Monitoring	2016-019	62
Department of Labor	Unemployment Insurance	Allowability, Eligibility, Special Tests and Provisions	2016-020	66
Agency of Transportation	Airport Improvement Program	Allowability	2016-022	71
Agency of Transportation	Airport Improvement Program	Special Tests and Provisions	2016-023	73
Agency of Transportation	National Infrastructure Investments	Procurement	2016-024	75
Agency of Human Services	Race to the Top - Early Learning Challenges	Allowability	2016-026	79
Agency of Human Services	Race to the Top - Early Learning Challenges	Subrecipient Monitoring	2016-027	81
Agency of Human Services	TANF Cluster	Allowability	2016-028	83
Agency of Human Services	Low Income Home Agency Assistance	Allowability, Eligibility	2016-031	90
Agency of Human Services	Low Income Home Agency Assistance	Reporting	2016-032	93
Agency of Human Services	Foster Care – Title IV-E	Allowability	2016-035	99
Agency of Human Services	Foster Care – Title IV-E	Allowability	2016-036	101
Agency of Human Services	Adoption Assistance	Allowability	2016-038	105
Agency of Human Services	Medicaid Cluster	Allowability, Eligibility	2016-039	108
Agency of Human Services	Medicaid Cluster	Special Tests and Provisions Procurement, Subrecipient Monitoring	2016-040	112
Agency of Human Services	Medicaid Cluster	Monitoring	2016-041	114
Agency of Human Services	Medicaid Cluster	Special Tests and Provisions	2016-042	121
Department of Public Safety	Homeland Security Grant Program	Equipment and Real Property Management	2016-043	123

Qualified Opinions on Major Federal Programs

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinions* paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs listed in Table 1 above for the year ended June 30, 2016.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor’s results section of the accompanying schedule of finding and questioned costs for the year ended June 30, 2016.



Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-015, 2016-021, 2016-034, and 2016-037. Our opinion on each major federal program is not modified with respect to these matters.

The State's responses to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-010, 2016-012, 2016-014, 2016-016, 2016-017, 2016-018, 2016-019, 2016-020, 2016-022, 2016-023, 2016-024, 2016-026, 2016-027, 2016-028, 2016-029, 2016-031, 2016-032, 2016-035, 2016-036, 2016-038, 2016-039, 2016-040, 2016-041, 2016-042, and 2016-043 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-011, 2016-013, 2016-015, 2016-021, 2016-025, 2016-030, 2016-033, 2016-034, and 2016-037 to be significant deficiencies.

The State's responses to the internal control over compliance findings in our audit are described in the accompanying schedule of findings and questioned costs. The identified State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of Vermont, as of and for the year ended June 30, 2016 and related notes to the financial statements which collectively comprise the State's basic financial statements. We issued our report thereon dated December 27, 2016, which referred to the use of the reports of other auditors and which contained unmodified opinions on those financial statements. Our report included an emphasis of matter paragraph noting the State's adoption of Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*, for fiscal year ended June 30, 2016.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Colchester, Vermont
March 28, 2017

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

CFDA number	Federal agency/program type	pass-through identifying Number	Expenditures	Amounts passed through to subrecipients
Direct grants:				
U.S. Department of Agriculture:				
10.025	Plant and Animal Disease, Pest Control, and Animal Care		\$ 282,905	16,000
10.028	Wildlife Services		10,000	—
10.153	Market News		32,373	—
10.156	Federal-State Marketing Improvement Program		59,934	12,000
10.163	Market Protection and Promotion		16,593	—
10.169	Specialty Crop Block Grant Program		252,032	173,481
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection		700,740	—
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children		14,780,507	—
10.558	Child and Adult Care Food Program		6,760,508	6,696,563
10.560	State Administrative Expenses for Child Nutrition		812,888	500
10.572	WIC Farmers' Market Nutrition Program (FMNP)		75,369	—
10.575	Farm to School Grant Program		5,144	—
10.576	Senior Farmers Market Nutrition Program		83,144	45,005
10.578	WIC Grants to States (WGS)		45,062	—
10.579	Child Nutrition Discretionary Grants Limited Availability		54,654	52,068
10.582	Fresh Fruit and Vegetable Program		1,760,171	1,674,951
10.596	Pilot Projects to Reduce Dependency and Increase Work Requirements and Work Effort under SNAP		872,980	300,000
10.652	Forestry Research		53,427	—
10.664	Cooperative Forestry Assistance		820,178	195,810
10.672	Rural Development, Forestry, and Communities		3,576	3,576
10.674	National Fire Plan – Wildland Urban Interface Community Fire Assistance		99,552	82,827
10.675	Urban and Community Forestry Program		113,978	52,608
10.676	Forest Legacy Program		4,394,719	—
10.678	Forest Stewardship Program		43,251	43,251
10.680	Forest Health Protection		427,375	370,599
10.773	Rural Business Opportunity Grants		48,480	48,480
10.902	Soil and Water Conservation		21,257	—
10.912	Environmental Quality Incentive Program		337,841	—
10.914	Wildlife Habitat Incentives Program		28,855	—
10.932	Regional Conservation Partnership Program		42,066	—
10.999	Organic Certification – Producers		447,667	—
<i>SNAP Cluster:</i>				
10.551	Supplemental Nutritional Assistance Program		118,552,768	—
10.561	State Administrative Matching Grants for the Supplemental Nutritional Assistance Program		10,575,342	776,759
	Total SNAP Cluster		<u>129,128,110</u>	<u>776,759</u>
<i>Child Nutrition Cluster:</i>				
10.555	National School Lunch Program		23,442,548	21,157,325
10.559	Summer Food Service Program for Children		1,327,538	1,265,992
	Total Child Nutrition Cluster		<u>24,770,086</u>	<u>22,423,317</u>
<i>Food Distribution Cluster:</i>				
10.565	Commodity Supplemental Food Program		925,737	225,194
10.568	Emergency Food Assistance Program (Administrative Costs)		149,666	121,154
10.569	Emergency Food Assistance Program (Commodities)		1,138,912	—
	Total Food Distribution Cluster		<u>2,214,315</u>	<u>346,348</u>
<i>Forest Service Schools and Roads Cluster:</i>				
10.665	Schools and Roads – Grants to States		274,121	274,121
	Total Forest Service Schools and Roads Cluster		<u>274,121</u>	<u>274,121</u>
	Total U.S. Department of Agriculture		<u>189,873,858</u>	<u>33,586,264</u>
U.S. Department of Commerce:				
11.407	Interjurisdictional Fisheries Act of 1986		46,460	34,514
11.549	State and Local Implementation Grant Program		64,974	—
<i>Economic Development Cluster:</i>				
11.307	Economic Adjustment Assistance		537,208	17,034
	Total Economic Development Cluster		<u>537,208</u>	<u>17,034</u>
	Total U.S. Department of Commerce		<u>648,642</u>	<u>51,548</u>
U.S. Department of Defense:				
12.002	Procurement Technical Assistance For Business Firms		420,552	43,689
12.100	Aquatic Plant Control		450,191	86,691
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services		14,033	—
12.401	National Guard Military Operations and Maintenance (O&M) Projects		21,646,985	—
12.404	National Guard ChalleNGe Program		651,799	—
12.617	Economic Adjustment Assistance for State Governments		30,079	—
	Total U.S. Department of Defense		<u>23,213,639</u>	<u>130,380</u>
U.S. Department of Housing and Urban Development:				
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii		12,858,366	12,469,564
14.231	Emergency Solutions Grant Program		609,359	568,884
14.239	Home Investment Partnerships Program		3,059,631	2,980,761
14.999	Office of Fair Housing-Assistance Grant		76,301	—

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

CFDA number	Federal agency/program type	pass-through identifying Number	Expenditures	Amounts passed through to subrecipients
14.269	<i>CDBG-Disaster Recovery Grants-Pub. L. No. 113-2 Cluster:</i> Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)		\$ 8,022,684	7,809,684
	Total CDBG-Disaster Recovery Grants-Pub. L. No. 113-2 Cluster		<u>8,022,684</u>	<u>7,809,684</u>
	Total Department of Housing and Urban Development		<u>24,626,341</u>	<u>23,828,893</u>
	U.S. Department of Interior:			
15.608	Fish and Wildlife Management Assistance		22,957	4,000
15.615	Cooperative Endangered Species Conservation Fund		362,147	10,924
15.616	Clean Vessel Act Program		147,351	80,785
15.622	Sportfishing and Boating Safety Act		208,772	198,000
15.626	Enhanced Hunter Education and Safety Program		46,093	26,413
15.631	Partners for Fish and Wildlife		39,182	—
15.634	State Wildlife Grants		874,692	220,275
15.657	Endangered Species Conservation-Recovery Implementation Funds		48,527	—
15.808	U.S. Geological Survey – Research and Data Collection		14,211	—
15.810	National Cooperative Geologic Mapping Program		67,540	33,800
15.904	Historic Preservation Fund Grants-In-Aid		671,830	55,960
15.916	Outdoor Recreation – Acquisition, Development and Planning		244,546	189,153
15.925	National Maritime Heritage Grants		28,302	26,954
15.926	American Battlefield Protection		728	—
	<i>Fish and Wildlife Cluster:</i>			
15.605	Sport Fish Restoration Program		3,185,879	—
15.611	Wildlife Restoration and Basic Hunter Education		<u>3,824,863</u>	<u>41,513</u>
	Total Fish and Wildlife Cluster		<u>7,010,742</u>	<u>41,513</u>
	Total U.S. Department of Interior		<u>9,787,620</u>	<u>887,777</u>
	U.S. Department of Justice:			
16.013	Violence Against Women Act Court Training and Improvement Grants		143,862	—
16.017	Sexual Assault Services Formula Program		276,593	261,653
16.523	Juvenile Accountability Block Grants		82,567	33
16.540	Juvenile Justice and Delinquency Prevention – Allocation to States		377,503	187,713
16.543	Missing Children's Assistance		116,007	21,096
16.550	State Justice Statistics Program for Statistical Analysis Centers		15,277	—
16.554	National Criminal History Improvement Program (NCHIP)		38,373	—
16.575	Crime Victim Assistance		2,308,494	839,157
16.576	Crime Victim Compensation		184,887	—
16.582	Crime Victim Assistance/Discretionary Grants		72,349	—
16.585	Drug Court Discretionary Grant Program		158,380	—
16.588	Violence Against Women Formula Grants		748,759	380,351
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program		476,302	302,821
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program		85,719	50,582
16.593	Residential Substance Abuse Treatment for State Prisoners		175,369	—
16.710	Public Safety Partnership and Community Policing Grants		373,551	—
16.735	PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities		129,476	—
16.738	Edward Byrne Memorial Justice Assistance Grant Program		574,430	82,165
16.741	DNA Backlog Reduction Program		298,408	—
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program		84,340	—
16.751	Edward Byrne Memorial Competitive Grant Program		26,393	—
16.754	Harold Rogers Prescription Drug Monitoring Program		193,842	27,702
16.812	Second Chance Act Reentry Initiative		810,534	334,693
16.826	Vision 21		3,871	—
16.922	Equitable Sharing Program		227,721	17,151
16.999	FBI Joint Terrorism Task Force		2,194	—
16.999	US Marshall's District Fugitive Task Force		9,578	—
16.999	ICE/SLOT (formally Bordergap)		10,968	—
16.999	Domestic Cannabis Eradication / Suppression Program (DCE/SP) (formally MERT)		11,495	—
16.999	Drug Enforcement Administration – DEA		50,601	—
16.999	HSI Special Investigations		16,887	—
16.999	FBI Special Investigations		20,292	—
16.999	Evidence (Asset Seizure) Forfeiture Funds (Justice & Treasury)		<u>14,330</u>	<u>—</u>
	Total U.S. Department of Justice		<u>8,119,352</u>	<u>2,505,117</u>
	U.S. Department of Labor:			
17.002	Labor Force Statistics		653,861	—
17.005	Compensation and Working Conditions		60,490	—
17.225	Unemployment Insurance		80,015,318	—
17.235	Senior Community Service Employment Program		488,383	464,673
17.245	Trade Adjustment Assistance		904,505	—
17.268	H-1B Job Training Grants		374,048	—
17.271	Work Opportunity Tax Credit Program (WOTC)		91,992	—
17.273	Temporary Labor Certification for Foreign Workers		80,265	—
17.277	WIOA National Dislocated Worker Grants/WIA National Emergency Grants		780,212	373,275
17.281	WIA/WIOA Dislocated Worker National Reserve Technical Assistance and Training		35,716	—
17.503	Occupational Safety and Health – State Program		736,196	477,253
17.504	Consultation Agreements		427,085	—
17.600	Mine Health and Safety Grants		68,136	—

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

CFDA number	Federal agency/program type	pass-through identifying Number	Expenditures	Amounts passed through to subrecipients
	<i>Employment Service Cluster:</i>			
17.207	Employment Service/Wagner – Peyser Funded Activities		\$ 2,386,715	—
17.801	Disabled Veterans' Outreach Program (DVOP)		523,748	65,000
	Total Employment Service Cluster		2,910,463	65,000
	<i>WIA Cluster:</i>			
17.258	WIA/WIOA Adult Program		2,044,420	—
17.259	WIA/WIOA Youth Activities		1,534,284	84,096
17.278	WIA/WIOA Dislocated Worker Formula Grants		959,349	—
	Total WIA Cluster		4,538,053	84,096
	Total U.S. Department of Labor		92,164,723	1,464,297
	U.S. Department of Transportation:			
20.106	Airport Improvement Program		15,178,143	7,319
20.200	Highway Research and Development Program		402,989	—
20.218	National Motor Carrier Safety		1,255,351	—
20.231	Performance and Registration Information Systems Management		200,000	—
20.233	Boarder Enforcement Grants		19,319	—
20.314	Railroad Development		97,259	97,259
20.319	High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants		5,544	—
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research		117,917	53,086
20.509	Formula Grants for Rural Areas		14,681,719	14,156,441
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities		593,366	563,557
20.521	New Freedom Program		47,607	47,607
20.608	Minimum Penalties For Repeat Offenders For Driving While Intoxicated		4,992,904	1,581,198
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants		11,712	1,949
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants		86,819	26,756
20.721	PHMSA Pipeline Safety Program One Call Grant		327,581	—
20.933	National Infrastructure Investments		7,184,201	—
	<i>Highway Planning and Construction Cluster:</i>			
20.205	Highway Planning and Construction		227,310,717	14,032,121
20.219	Recreational Trails Program		622,720	168,015
	Total Highway Planning and Construction Cluster		227,933,437	14,200,136
	<i>Federal Transit Cluster:</i>			
20.500	Federal Transit – Capital Investment Grants		1,836,121	1,737,944
20.526	Bus and Bus Facilities Formula Program		917,526	881,367
	Total Federal Transit Cluster		2,753,647	2,619,311
	<i>Transit Services Programs Cluster:</i>			
20.610	State Traffic Safety Information System Improvement Grants		151,949	—
	Total Transit Services Programs Cluster		151,949	—
	Total U.S. Department of Transportation		276,041,464	33,354,619
	U.S. Department of Treasury:			
21.000	Equitable Sharing Program (Evidence Forfeiture Funds – EFF)		7,569	—
	Total U.S. Department of Treasury		7,569	—
	U.S. General Services Administration			
39.003	Donation of Federal Surplus Personal Property		2,947,493	—
	Total U.S. General Services Administration		2,947,493	—
	U.S. Institute of Museum and Library Service:			
45.310	Grants to States		875,820	105,839
	Total U.S. Institute of Museum and Library Service		875,820	105,839
	U.S. Small Business Administration:			
59.061	State Trade and Export Promotion Pilot Grant Program		130,750	57,530
	Total U.S. Small Business Administration		130,750	57,530
	U.S. Department of Veterans Affairs:			
64.203	Veterans Cemetery Grants Program		1,949,722	—
	Total U.S. Department of Veterans Affairs		1,949,722	—
	U.S. Environmental Protection Agency:			
66.032	State Indoor Radon Grants		105,910	—
66.034	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act		326,061	—
66.040	State Clean Diesel Grant Program		49,261	34,569
66.042	Temporally Integrated Monitoring of Ecosystems (TIME) and Long-Term Monitoring (LTM) Program		133,843	618
66.454	Water Quality Management Planning		129,889	40,000
66.461	Regional Wetland Program Development Grants		14,585	—
66.481	Lake Champlain Basin Program		436,200	49,989
66.605	Performance Partnership Grants		3,650,140	—
66.608	Environmental Information Exchange Network Grant Program and Related Assistance		51,175	—

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

CFDA number	Federal agency/program type	pass-through identifying Number	Expenditures	Amounts passed through to subrecipients
66.700	Consolidated Pesticide Enforcement Cooperative Agreements		\$ 358,504	—
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements		39,022	—
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals		249,628	—
66.708	Pollution Prevention Grants Program		75,714	10,840
66.802	Superfund State, Political Subdivision and Indian Tribe Site-Specific Cooperative Agreements		83,435	—
66.804	Underground Storage Tank Prevention, Detection, and Compliance Program		277,052	—
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program		652,961	—
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements		227,188	—
66.817	State and Tribal Response Program Grants		607,046	—
66.818	Brownfields Assessment and Cleanup Cooperative Agreements		642,742	531,018
	<i>Clean Water State Revolving Fund Cluster:</i>			
66.458	Capitalization Grants for Clean Water State Revolving Funds		2,809,233	2,104,113
	Total Clean Water State Revolving Fund Cluster		2,809,233	2,104,113
	<i>Drinking Water State Revolving Fund Cluster:</i>			
66.468	Capitalization Grants for Drinking Water State Revolving Funds		17,906,213	14,815,050
	Total Drinking Water State Revolving Fund Cluster		17,906,213	14,815,050
	Total U.S. Environmental Protection Agency		28,825,802	17,586,197
	U.S. Department of Energy:			
81.039	SHOPP (State Heating Oil and Propane Program)		4,437	—
81.041	State Energy Program		618,531	427,043
81.042	Weatherization Assistance for Low-Income Persons		1,209,376	962,781
81.119	State Energy Program Special Projects		233,590	221,350
	Total U.S. Department of Energy		2,065,934	1,611,174
	U.S. Department of Education:			
84.002	Adult Education – Basic Grants to States		834,742	736,224
84.010	Title I Grants to Local Educational Agencies		33,078,481	32,500,468
84.011	Migrant Education – State Grant Program		364,303	245,600
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth		182,722	—
84.048	Career and Technical Education – Basic Grants to States		4,029,506	3,287,277
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States		16,347,927	—
84.169	Independent Living – State Grants		224,449	129,587
84.177	Rehabilitation Services – Independent Living Services for Older Individuals Who are Blind		289,955	225,000
84.181	Special Education – Grants for Infants and Families		2,148,938	—
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities		252,297	—
84.196	Education for Homeless Children and Youth		135,541	58,983
84.224	Assistive Technology		408,860	163,046
84.265	Rehabilitation Training – State Vocational Rehabilitation Unit In-Service Training		15,858	—
84.287	Twenty-First Century Community Learning Centers		5,849,633	5,332,336
84.323	Special Education – State Personnel Development		834,223	318,681
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)		51,995	—
84.365	English Language Acquisition State Grants		599,132	345,469
84.366	Mathematics and Science Partnerships		771,732	656,006
84.367	Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)		10,692,518	10,375,889
84.369	Grants for State Assessments and Related Activities		4,072,419	—
84.372	Statewide Longitudinal Data Systems		490,044	—
84.412	Race to the Top – Early Learning Challenge		6,462,637	625,336
84.419	Preschool Development Grants		3,246,210	3,244,586
	<i>Special Education Cluster (IDEA):</i>			
84.027	Special Education – Grants to States		27,016,465	24,322,010
84.173	Special Education – Preschool Grants		765,509	515,599
	Total Special Education Cluster (IDEA)		27,781,974	24,837,609
	Total U.S. Department of Education		119,166,096	83,082,097
	U.S. Election Assistance Commission:			
90.401	Help America Vote Act Requirements Payments		1,083,949	—
	Total U.S. Election Assistance Commission		1,083,949	—
	U.S. Northern Border Regional Commission			
90.601	Northern Border Regional Development		174,273	87,990
	Total U.S. Northern Border Regional Commission		174,273	87,990
	U.S. Department of Health and Human Services:			
93.041	Special Programs for the Aging – Title VII, Chapter 3 – Programs for Prevention of Elder Abuse, Neglect, and Exploitation		23,514	23,514
93.042	Special Programs for the Aging – Title VII, Chapter 2 – Long Term Care Ombudsman Services for Older Individuals		62,306	62,306
93.043	Special Programs for the Aging-Title III, Part D – Disease Prevention and Health Promotion Services		93,283	93,283
93.052	National Family Caregiver Support, Title III, Part E		811,571	363,451
93.069	Public Health Emergency Preparedness		4,308,170	89,474
93.070	Environmental Public Health and Emergency Response		898,832	113,229
93.071	Medicare Enrollment Assistance Program		35,065	35,065
93.074	Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEPP) Cooperative Agreements		133,880	—

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

CFDA number	Federal agency/program type	pass-through identifying Number	Expenditures	Amounts passed through to subrecipients
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School -Based Surveillance		\$ 64,831	—
93.090	Guardianship Assistance		124,118	—
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program		266,611	174,590
93.094	Well-Integrated Screening and Evaluation for Women Across the Nation		496,500	—
93.103	Food and Drug Administration – Research		758,114	—
93.106	FDA Dairy Readiness Rating		56,649	—
93.110	Maternal and Child Health Federal Consolidated Programs		464,529	197,488
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs		180,566	—
93.127	Emergency Medical Services for Children		148,748	—
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices		170,598	14,000
93.136	Injury Prevention and Control Research and State and Community Based Programs		578,266	187,783
93.150	Projects for Assistance in Transition from Homelessness (PATH)		315,162	315,162
93.165	Grants to States for Loan Repayment Program		426,033	426,033
93.217	Family Planning – Services		756,772	745,977
93.241	State Rural Hospital Flexibility Program		270,874	108,280
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance		6,637,375	4,447,126
93.251	Universal Newborn Hearing Screening		261,983	198,400
93.268	Immunization Cooperative Agreements		8,715,636	—
93.270	Adult Viral Hepatitis Prevention and Control		92,298	—
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance		1,949,452	447,979
93.301	Small Rural Hospital Improvement Grant Program		71,166	64,632
93.305	National State Based Tobacco Control Programs		832,036	—
93.324	State Health Insurance Assistance Program		328,331	310,956
93.336	Behavioral Risk Factor Surveillance System		207,523	—
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program		1,825,304	—
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review		538,838	—
93.517	Affordable Care Act – Aging and Disability Resource Center		722,651	488,127
93.519	Affordable Care Act (ACA) – Consumer Assistance Program Grants		110,715	—
93.520	Centers for Disease Control and Prevention – Affordable Care Act (ACA) – Communities Putting Prevention to Work		49,828	—
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF		1,521,851	3,945
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges		46,433,571	—
93.538	Affordable Care Act – National Environmental Public Health Tracking Program - Network Implementation		912,489	—
93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance Financed in Part by Prevention and Public Health Funds		91,885	—
93.556	Promoting Safe and Stable Families		339,850	229,343
93.563	Child Support Enforcement		9,362,502	—
93.564	Child Support Enforcement Research		94,514	—
93.566	Refugee and Entrant Assistance – State Administered Programs		490,613	300,664
93.568	Low-Income Home Energy Assistance		17,822,586	2,346,411
93.569	Community Services Block Grant		3,358,423	3,081,218
93.576	Refugee and Entrant Assistance – Discretionary Grants		516,592	516,592
93.586	State Court Improvement Program		210,142	—
93.590	Community – Based Child Abuse Prevention Grants		99,462	99,462
93.597	Grants to States for Access and Visitation Programs		100,419	100,419
93.599	Chafee Education and Training Vouchers Program (ETV)		104,618	104,618
93.600	Head Start		128,945	—
93.609	The Affordable Care Act – Medicaid Adult Quality Grants		396,228	—
93.617	Voting Access for Individuals with Disabilities – Grants to States		38,159	—
93.624	ACA – State Innovation Models: Funding for Model Design and Model Testing Assistance		16,433,533	4,296,781
93.630	Developmental Disabilities Basic Support and Advocacy Grants		479,356	202,300
93.643	Children's Justice Grants to States		124,702	67,750
93.645	Stephanie Tubbs Jones Child Welfare Services Program		500,282	—
93.658	Foster Care – Title IV-E		13,188,666	348
93.659	Adoption Assistance		8,855,460	—
93.667	Social Services Block Grant		7,766,300	622,488
93.669	Child Abuse and Neglect State Grants		110,684	13,617
93.671	Family Violence Prevention and Services Domestic Violence Shelter and Supportive Services for Older Individuals		945,272	751,539
93.674	Chafee Foster Care Independence Program		375,135	375,000
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance – Financed in Part by the Prevention and Public Health Fund (PPHF)		180,286	—
93.753	Child Lead Poisoning Prevention Surveillance Financed in Part by Prevention and Public Health (PPHF) Program		378,806	22,500
93.758	Preventive Health and Health Services Block Grant Funded solely with Prevention and Public Health Funds (PDHF)		418,596	24,991
93.767	Children's Health Insurance Program		8,575,725	—
93.791	Money Follows the Person Rebalancing Demonstration		3,031,868	—
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)		262,872	—
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities		56,025	—
93.889	National Bioterrorism Hospital Preparedness Program		874,689	438,250
93.913	Grants to States for Operation of Offices of Rural Health		154,061	45,250
93.917	HIV Care Formula Grants		1,142,846	353,311

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

CFDA number	Federal agency/program type	pass-through identifying Number	Expenditures	Amounts passed through to subrecipients
93.940	HIV Prevention Activities – Health Department Based		\$ 1,086,653	691,742
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency (HIV) Infection in Selected Groups		103,703	—
93.945	Assistance Programs for Chronic Disease Prevention and Control		1,181,415	312,303
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs		139,055	—
93.958	Block Grants for Community Mental Health Services		852,235	605,820
93.959	Block Grants for Prevention and Treatment of Substance Abuse		3,841,215	3,732,974
93.977	Preventive Health Services – Sexually Transmitted Disease Control Grants		188,980	45,835
93.994	Maternal and Child Health Services Block Grant to the States		925,448	696,704
<i>Aging Cluster:</i>				
93.044	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers		1,612,429	1,612,429
93.045	Special Programs for the Aging – Title III, Part C – Nutrition Services		3,911,534	3,911,534
93.053	Nutrition Services Incentive Program		865,374	865,374
	Total Aging Cluster		<u>6,389,337</u>	<u>6,389,337</u>
<i>TANF Cluster:</i>				
93.558	Temporary Assistance for Needy Families		33,395,676	164,108
	Total TANF Cluster		<u>33,395,676</u>	<u>164,108</u>
<i>CCDF Cluster:</i>				
93.575	Child Care and Development Block Grant		13,013,731	2,350,111
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund		6,318,433	209,265
	Total CCDF Cluster		<u>19,332,164</u>	<u>2,559,376</u>
<i>Medicaid Cluster:</i>				
93.775	State Medicaid Fraud Control Units		682,911	—
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare		1,677,396	—
93.778	Medical Assistance Program		1,078,844,997	30,957,973
	Total Medicaid Cluster		<u>1,081,205,304</u>	<u>30,957,973</u>
	Total U.S. Department of Health and Human Services		<u>1,328,307,326</u>	<u>69,059,824</u>
U.S. Corporation for National Community Service:				
94.003	State Commissions		271,756	—
94.006	AmeriCorps		1,522,638	1,291,220
94.013	Volunteers in Service to America		37,114	—
	Total U.S. Corporation for National Community Service		<u>1,831,508</u>	<u>1,291,220</u>
U.S. Executive Office of the President				
95.001	High Intensity Drug Trafficking Areas Program		2,359	—
	Total U.S. Executive Office of the President		<u>2,359</u>	<u>—</u>
U.S. Social Security Administration:				
96.008	Social Security-Work Incentives Planning and Assistance Program		110,000	—
<i>Disability Insurance/SSI Cluster:</i>				
96.001	Social Security – Disability Insurance		6,100,253	—
	Total Disability Insurance/SSI Cluster		<u>6,100,253</u>	<u>—</u>
	Total U.S. Social Security Administration		<u>6,210,253</u>	<u>—</u>
U.S. Department of Homeland Security:				
97.012	Boating Safety Financial Assistance		699,159	36,949
97.023	Community Assistance Program – State Support Services Element (CAP – SSSE)		321,571	—
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)		8,923,064	7,551,990
97.039	Hazard Mitigation Grant		2,989,582	2,665,647
97.041	National Dam Safety Program		28,152	—
97.042	Emergency Management Performance Grants		3,610,811	623,815
97.043	State Fire Training Systems Grants		22,069	—
97.044	Assistance to Firefighters Grant		112,631	—
97.047	Pre-Disaster Mitigation		58,658	58,658
97.067	Homeland Security Grant Program		4,025,570	1,621,497
97.089	Driver's License Security Grant Program		391,678	—
97.090	Law Enforcement Officer Reimbursement Agreement Program		50,735	44,300
	Total U.S. Department of Homeland Security		<u>21,233,680</u>	<u>12,602,856</u>
	Total Direct Grants		<u>2,139,288,173</u>	<u>281,295,622</u>

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2016

<u>CFDA number</u>	<u>Federal agency/program type</u>	<u>pass-through identifying Number</u>	<u>Expenditures</u>	<u>Amounts passed through to subrecipients</u>
	Federal Awards Received as a Subrecipient:			
	Clean Energy States Alliance:			
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	DE-EE0006305	\$ 23,877	23,877
	Total Clean Energy States Alliance		<u>23,877</u>	<u>23,877</u>
	Vermont State Colleges and the University of Vermont:			
17.282	Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	TC265171460A50, TC237891260A50	69,485	—
	Total Vermont State Colleges and the University of Vermont		<u>69,485</u>	<u>—</u>
	Total Awards Received as a Subrecipient		<u>93,362</u>	<u>23,877</u>
	Total Federal Awards Expended		<u>\$ 2,139,381,535</u>	<u>281,319,499</u>

STATE OF VERMONT

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of the State of Vermont (the State) applied in the preparation of the schedule of expenditures of federal awards (the Schedule) are set forth below:

(a) *Single Audit Reporting Entity*

For purposes of complying with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the State includes all entities that are considered part of the primary government, as described in the basic financial statements as of and for the year ended June 30, 2016. The Schedule does not include component units identified in the notes to the basic financial statements.

The entities listed below are Discretely Presented Component Units in the State's basic financial statements, which received federal financial assistance for the year ended June 30, 2016. Each of these entities is subject to separate audits in compliance the audit requirements of the Uniform Guidance, if required.

The federal transactions of the following entities are not reflected in the Schedule:

Vermont Student Assistance Corporation	Vermont Municipal Bond Bank
University of Vermont and State Agricultural College	Vermont Center for Geographic Information
Vermont State College System	Vermont Sustainable Jobs Fund, Inc.
Vermont Educational and Health Buildings Financing Agency	Vermont Transportation Authority
Vermont Housing and Conservation Board	Vermont Veterans' Home
Vermont Economic Development Authority	Vermont Rehabilitation Corporation
	Vermont Telecommunications Authority
	Vermont Housing Finance Agency

(b) *Basis of Presentation*

The information in the accompanying Schedule is presented in accordance with the Uniform Guidance. Pursuant to the Uniform Guidance, federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, food commodities, direct appropriations, or other assistance and, therefore, are reported on the Schedule. Federal awards do not include direct federal cash payments to individuals. A copy of the schedule of expenditures of federal awards presented by State Department and Agency can be found on the State of Vermont Department of Finance and Management website.

(2) Basis of Accounting

The accompanying Schedule was prepared on the modified accrual basis of accounting.

Matching Costs

Matching costs, i.e., the nonfederal share of certain program costs, are not included in the accompanying Schedule.

STATE OF VERMONT

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

(3) Categorization of Expenditures

The categorization of expenditures by program included in the Schedule is based upon the Catalog of Federal Domestic Assistance (CFDA). Changes in the categorization of expenditures occur based upon revisions to the CFDA.

(4) Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency.

(5) Indirect Cost Rate

Whereas the various agencies and departments of the State may negotiate individual cost recovery rates with their cognizant agencies, the State is precluded from, and does not utilize, the 10% de minimus cost rate under the conditions of 2 CFR 200.414 (f).

(6) Unemployment Insurance (CFDA #17.225)

State unemployment tax revenues must be deposited to the Unemployment Trust Fund in the U.S. Treasury and may only be used to pay benefits under the federally approved State unemployment law. *OMB Compliance Supplement* requires that State Unemployment Insurance Funds, as well as federal funds, be included in the total expenditures of CFDA #17.225. Unemployment insurance expenditures are classified as follows:

Federal	\$	10,809,282
State		<u>69,206,036</u>
Total	\$	<u><u>80,015,318</u></u>

(7) Airport Improvement Program (CFDA #20.106)

The State receives Federal Aviation Administration (FAA) funds from the U.S. Department of Transportation. The State excludes from its Schedule FAA funds received on behalf of the City of Burlington, Vermont (the City), because the State does not perform any program responsibilities or oversight of these funds. Rather, its sole function is to act as a conduit between the federal awarding agency and the City, who owns and operates the airport. These FAA funds are included on the City's schedule of expenditures of federal awards.

(8) Nonmonetary Federal Financial Assistance

The State is the recipient of federal programs that do not result in cash receipts or disbursements. Noncash awards included in the Schedule are as follows:

(a) National School Lunch Program (CFDA #10.555)

The National School Lunch Program assists states in providing a nutritious food service program for low-income children through cash grants and food commodities, such as bread, meat, and other commodities. Total federal expenditures included in the Schedule for the National School Lunch Program represent the federal government's acquisition value of food commodities provided to the State. A total of \$2,264,232 of food commodities was included in the Schedule.

STATE OF VERMONT

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2016

(b) Summer Food Service Program for Children (CFDA #10.559)

The Summer Food Service Program for Children assists states, through grants-in-aid and other means, to conduct nonprofit food service programs for children during the summer months and at other approved times, when school is not in session. Total federal expenditures included in the Schedule for the Summer Food Service Program for Children represent the federal government's acquisition value of food commodities provided to the State. A total of \$6,687 of food commodities was included in the Schedule.

(c) Commodity Supplemental Food Program – Commodities (CFDA #10.565)

The Commodity Supplemental Food Program provides food and administrative grants to improve the health and nutritional status of low-income pregnant, postpartum, and breastfeeding women; infants and children up to and including age 5; and elderly persons age 60 years and older through the donation of supplemental USDA foods. Total federal expenditures included in the Schedule for the Commodity Supplemental Food Program – Commodities represent the federal government's acquisition value of the food commodities provided to the State. A total of \$700,543 of food commodities was included in the Schedule.

(d) Emergency Food Assistance Program Commodities (CFDA #10.569)

The Emergency Food Assistance Program for Children helps supplement the diets of low-income Americans by providing them with food and nutritional assistance at no cost. Under this program, commodity foods are made available by the USDA to states. States provide the food to locally selected agencies, usually food banks, which in turn distribute the food to soup kitchens and pantries that directly serve the public. Total federal expenditures included in the Schedule for the Emergency Food Assistance Program for Children represent the federal government's acquisition value of food commodities provided to the State. A total of \$1,138,912 of food commodities was included in the Schedule.

(e) Donation of Federal Surplus Personal Property (CFDA #39.003)

The State obtains surplus property from various federal agencies at no cost. The property is then sold by the State to eligible organizations for a nominal service charge. Total federal expenditures included in the Schedule for Donation of Federal Surplus Personal Property represent the federal government's acquisition value of the federal property sold by the State. A total of \$2,947,493 in donation of federal surplus property was included in the Schedule.

(f) Immunization Cooperative Agreements – Vaccinations (CFDA #93.268)

To assist in establishing and maintaining preventive health service programs to immunize individuals against vaccine-preventable diseases, the State provides vaccines to local healthcare providers throughout the year in an effort to ensure that all residents have been properly immunized. Total federal expenditures included in the Schedule for Immunization Cooperative Agreements represent the federal government's acquisition value of the vaccines provided to the State. A total of \$6,912,639 related to the acquisition value of vaccines was included in the Schedule.

STATE OF VERMONT
Schedule of Findings and Questioned Costs
June 30, 2016

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of financial statement:
- Material weaknesses: **Yes**
 - Significant deficiencies: **Yes**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
- Material weaknesses: **Yes**
 - Significant deficiencies: **Yes**
- (e) Type of report issued on compliance for major programs: **Unmodified, except for:**

Modified Opinions

SNAP Cluster (CFDA #10.551 and #10.561)
Special Supplemental Nutrition Program for Women, Infants and Children (#10.557)
Child Nutrition Cluster (CFDA #10.555 and #10.559)
Child and Adult Care Food Program (#10.558)
Unemployment Insurance (CFDA #17.225)
Airport Improvement Program (CFDA #20.106)
National Infrastructure Investments (RAIL) (#20.933)
Race to the Top - Early Learning Challenges (#84.412)
TANF Cluster (CFDA #93.558)
Low-Income Home Energy Assistance (CFDA #93.568)
Foster Care – Title IV-E (CFDA #93.658)
Adoption Assistance (CFDA #93.659)
Medicaid Cluster (CFDA #93.775, #93.777 and #93.778)
Homeland Security Grant Program (CFDA #97.067)

- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**

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(g) Identification of Major Programs

<u>CFDA Number</u>	<u>Name of federal program or cluster</u>
SNAP Cluster:	
10.551	Supplemental Nutritional Assistance Program
10.561	State Administrative Matching Grants for the Supplemental Nutritional Assistance Program
Child Nutrition Cluster:	
10.555	National School Lunch Program
10.559	Summer Food Service Program for Children
CDBG Disaster Recovery Grants Cluster:	
14.269	Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)
Fish and Wildlife Cluster:	
15.605	Sport Fish Restoration Program
15.611	Wildlife Restoration and Basic Hunter Education
Special Education Cluster:	
84.027	Special Education – Grants to States
84.173	Special Education – Preschool Grants
TANF Cluster:	
93.558	Temporary Assistance for Needy Families
Medicaid Cluster:	
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program
Other Programs:	
10.557	Special Supplemental Nutrition Program for Women, Infants and Children
10.558	Child and Adult Care Food Program
17.225	Unemployment Insurance
20.106	Airport Improvement Program
20.933	National Infrastructure Investments
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
84.412	Race To the Top – Early Learning Challenges
93.243	Substance Abuse and Mental Health Services – Projects of Regional Significance
93.268	Immunization Cooperative Agreements

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CFDA Number	Name of federal program or cluster
93.568	Low-Income Home Energy Assistance
93.624	ACA-State Innovation Models: Funding for Model Design and Model Testing Assistance
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance
93.767	Children’s Health Insurance Program
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between type A and type B programs: \$6,418,145

Auditee qualified as low-risk auditee? _____ Yes _____ X _____ No

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(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

**2016-001 Department of Vermont Health Access
Medicaid and CHIP Re-determination of Eligibility**

Background

During fiscal 2016, \$1.5 billion in expenditures were incurred in the Global Commitment Fund for human services activities. Funding for the Global Commitment Fund comes from federal grants which are matched with General and Special Fund dollars. A significant portion of these expenditures were for benefit payments made to Medicaid eligible claimants. Under Federal regulations, the State is obligated to annually re-determine the eligibility of individuals participating in the Medicaid and CHIP programs. Each annual re-determination establishes an individual's eligibility to receive Medicaid and/or CHIP benefits prospectively until the next annual evaluation.

Finding

Due to a number of factors, the State has had significant difficulties performing re-determinations of the Medicaid/CHIP population since 2014. As a result, the State sought and received in November 2015 a waiver of the redetermination and certain other eligibility requirements from the Center for Medicaid Services (CMS). The waiver provided the State relief from specific Federal requirements for the period April 2014 through February 29, 2016 for individuals not subject to the Federal MAGI redetermination process and for the period January 2015 through November 30, 2016 for the individuals subject to the MAGI rules.

Since receiving the waiver in November 2015, the State has been performing eligibility redeterminations in order to comply with the Federal regulations, but had not completed the redeterminations by the February 29, 2016 or November 30, 2016 waiver deadlines. As such, the State continues to be out of compliance with the redetermination regulations for those individuals from March 1, 2016 until the date of the post waiver redetermination for the non-MAGI population and from December 1, 2016 until the date of the post waiver redetermination for the MAGI population. For the period, from March 1, 2016 through June 30, 2016, the State is exposed for \$11.2 million of federal money used to fund claims for individuals from the non-MAGI population that had not had redeterminations prior to June 30, 2016. This out of compliance situation will continue into State fiscal year 2017 and result in a level of exposure until all post February and November 2016 eligibility redeterminations have been completed.

The State, at the direction of CMS, has a Mitigation Plan in place to work through the various programmatic issues and bring the State into compliance.

The finding appears to be systemic in nature and is considered a material weakness in internal control.

This issue also impacts the compliance testwork over the federal Medicaid program and a similar compliance finding has been reported as finding 2016-039.

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Recommendation

We recommend that the State continue to complete eligibility redeterminations and perform other corrective measures as outlined in the Mitigation Plan approved by CMS. Further, as the noncompliance issue has continued into fiscal 2017 the State will need to quantify its exposure for federally ineligible claims paid for each population since the 2016 waiver deadlines.

Views of Responsible Officials

The State is in compliance with the mitigation plan and tracking to the timelines for redeterminations and verifications outlined therein. The target date for completion of the potential exposure quantification is July 31, 2017.

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2016-002 Department of Vermont Health Access Health Exchange Premium Reconciliation and Settlement Costs

Background

Under the Patient Protection and Affordable Care Act (PPACA) 2010 HR3590, or Affordable Care Act (ACA), States had the option to implement a state run health insurance exchange or participate in the federal government exchange. The State of Vermont opted to create a state run exchange which is managed by the Department of Vermont Health Access (DVHA). DVHA has contracted with a third party to operate the premium processing work in support of the Exchange. DVHA provides the third party with participant data which also details how the premium will be covered which may come from up to five sources: federal cost sharing reduction, state cost sharing reduction, federal advanced premium tax credit, state subsidy (i.e. Vermont premium assistance) and member share. The third party is responsible for billing and collecting the state cost sharing reduction, the Vermont premium assistance and the member share and then remitting payment to the insurance carriers. Payments are not remitted to the insurance carriers until 100% of the amounts due are collected from the State and the member.

The State also entered into contracts with health insurers to market Qualified Health Plans (QHP) on the state run exchange. These QHP contracts outlined the responsibilities of the State as well as the health insurers. Under these agreements the State is responsible for determining eligibility for participation in the health exchange as well as Medicaid and for determining allowed tax credits and subsidies and the health insurers are responsible for accepting enrollment as determined by the State and for complying with terminations determined the State and outlined by law.

Finding

Throughout fiscal year 2016, the State continued to have operations problems implementing the ACA due to system limitations within the State's benefit eligibility system for Medicaid and the State health exchange, Vermont Health Connect (VHC). Due to the on-going functionality issues with VHC, there continue to be eligibility differences between the VHC system, the primary insurance carrier for enrollees under the health exchange (BCBSVT) and the premium invoice processor. The ACA states that when an individual receives an Advanced Premium Tax Credit (APTC), they are given a 90-day grace period for coming into current status with their premium payment balances. After the first 30 days, the carriers pend payment for the next 60 days. If the premiums are not paid, the individual is terminated back to the first day. The carriers are liable for the first 30 days of claims. There continue to be reconciliation inconsistencies, resulting in retroactive terminations beyond the 90-day threshold. Efforts surrounding the reconciliation of enrollment information by both BCBSVT and the State have resulted in disputes regarding rights and obligations under the Qualified Health Plans contract entered into by BCBSVT and the State. As a result of these disputes, the State and BCBSVT entered into a settlement agreement on December 16, 2016 whereby the State agreed to pay BCBSVT \$3.5 million to settle the enrollment disputes from the plan year, January – December 2015.

Due to the fact that there have been settlements in the past two calendar years and the functionality issues have not been corrected, it is possible that there will be a settlement associated with calendar year 2016.

The finding appears to be systemic in nature and is considered a material weakness in internal control.

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Recommendation

We recommend that a timely reconciliation of eligibility data between the key systems be performed to ensure that payments are remitted to insurance carriers timely.

Views of Responsible Officials

For 2017, the State has an ongoing monthly reconciliation process in with its carrier partners. The goal is to resolve enrollment discrepancies identified in a given month by the end of the following month. The State is currently meeting its monthly enrollment reconciliation service goals, which requires that critical discrepancies identified in a given month are resolved by the end of the following month. In addition, the State is working with its systems integrator to implement a suite of tools that will help the State team identify and resolve discrepancies more quickly, which will reduce the number of discrepancies found on the reconciliation file and meaningfully improve the customer service experience.

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2016-003 Treasurer's Office Retirement Systems – Review of Reports and Information

Background

The Vermont State Treasurer's Office is responsible for administering the Vermont State Employee's Retirement Plan (VSERS), the Vermont Municipal Employee's Retirement Plan (VMERS), and the Vermont Teacher's Retirement Plan (VSTRS). The Treasurer's Office has engaged an independent actuary who plays a key role in defined benefit pension plan accounting and provides multiple reports that are pertinent to financial reporting. With the recent implementation of Governmental Accounting Standards Board (GASB) Statements No. 67, *Financial Reporting for Pension Plans* (GASB 67), and Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), the reports and information provided by the actuary to the Treasurer's Office has steadily increased. Although the Treasurer's Office contracts the actuarial work to an independent consultant, the Treasurer's Office is ultimately responsible for the completeness and accuracy of the underlying data utilized and for understanding and approving the assumptions used in the actuarial analysis.

Finding

During our testwork, we noted the following:

- 1) GASB 68 established new financial reporting requirements for governments that provide pension benefits. As the administrator for the VMERS and VSTRS plans, the Treasurer's Office, with the assistance of the Systems' actuary, is responsible for compiling, for each plan, a schedule of employer allocations and a schedule of pension amounts by employer to provide each entity participating in the Systems the necessary information to properly recognize and disclose GASB 68 pension amounts in their financial statements. During our review of these schedules and the supporting documentation, we noted calculation errors in the underlying data – specifically, the crossover analysis. These errors did not result in any material changes in the schedules.
- 2) A key assumption used in the development of the actuarial reports is the selection of the appropriate mortality tables. For the 2016 actuarial reports, the Treasurer's Office elected to use the RP-2000 tables, which is an acceptable option for the mortality assumption. However, since the RP-2000 tables were updated after the release of the 2016 actuarial reports, the impact of the revision in the Systems' pension liabilities needed to be assessed and documented. The Treasurer's Office did investigate and evaluate the impact of using the revised mortality assumption, and determined that the impact would not be material. Documentation of the analysis should be formalized at the front end of the audit process.
- 3) Retirement information, including the GASB 67 and 68 actuarial reports and related data are an integral part of the State's CAFR reporting process. During the fiscal 2016 audit, various factors including agreement among OST, KPMG and the actuaries on actuarial assumptions, resulted in information not being aligned with the established timeline for the CAFR preparation by Finance and Management.
- 4) The VMERS and VSTRS experience studies include appendices which detail the actual experience of the plan compared to the historical assumptions. The tables were not properly updated, and therefore discrepancies between the suggested assumptions and the appendices existed requiring the appendices to be reissued by the actuary.

The finding appears to be systemic in nature and is considered a significant deficiency in internal control.

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Recommendation

While the Treasurer's Office, generally has good internal processes and controls in place, we believe that the amount and timing of data associated with the GASB 67 and 68 deliverables has put additional strain on the current systems and recommend that the Treasurer's Office continue, in concert with Finance and Management, actuaries and KPMG, to review and improve its current systems. We also recommend working with Finance and Management, KPMG and the State's newly hired Pension actuaries to establish a formal timetable for delivery of the pension information.

Finally, we acknowledge that the Treasurer has already begun performing reviews of selected processes and controls, and has been evaluating and adjusting personnel workloads to help strengthen internal controls. Additionally, meetings are currently being held to help improve coordination among the Treasurer's Office, Finance and Management, KPMG and the pension actuary.

Views of Responsible Officials

1. OST has a process in place to review actuarial data including the schedules and crossover analyses aimed at ensuring that data produced by OST is complete and accurate. While certain calculation errors were made in the crossover analysis, the errors did not result in any material changes in the schedules. OST notes that the Systems passed the crossover tests, but OST will review its internal review process to determine how the process should be improved to ensure information received from the actuary is proper and accurate for the crossover and all schedules.
2. OST continuously reviews the pension assumptions to ensure that the funding of the systems and the accounting and disclosures under GASB 67 and 68 are appropriate. This includes working with the state's actuaries, reviewing assumptions used by systems in other states as well as discussing assumptions with the Systems' investment advisors and other professionals. OST believes that the process in place to continually assess the impact of assumptions changes is strong, and understands the need for documenting this assessment. OST plans to conduct a review of its mortality assumptions as part of its transition plan with the state's new pension actuary and will work with Finance and Management, and auditors to ensure agreement on the procedures at the onset of the audit.
3. OST and Finance and Management, along with the actuaries and auditors, will continue to work on refining the reporting timeline and deliverables to help improve the process for 2017. While OST is currently working with the state's new pension actuary, meetings with Finance and Management and the auditors are scheduled to occur this spring to ensure that all parties agree with assumptions and deliverable dates.
4. OST agrees the tables in the appendices to the experience study reports were not properly updated for the VMERS and VSTRS systems, however, the body of the reports agree to the actions of the Boards. The changes subsequently made to the appendix schedules had no impact of the CAFR audit or GASB 68 schedules. OST has already taken steps to improve the quality control on the reports.

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2016-004 Department of Labor Unemployment Compensation Trust Fund – Claims Expense

Background

The Unemployment Insurance (UI) program is designed to provide temporary financial assistance to workers who are out of work due to no fault of their own and meet other eligibility requirements of State law. Each state administers a separate unemployment insurance program with guidelines established by Federal law. Determining eligibility for UI benefit payments is a multi-step process that involves making sure that the individual is monetarily eligible, validating the reason for separation, and determining if the individual meets all other eligibility requirements. The Vermont Department of Labor (VDOL) is responsible for determining whether claimants meet eligibility requirements outlined in State law to receive unemployment compensation benefits.

Finding

One condition for unemployment insurance eligibility is that claimants are required to register for work via the Job-Link website, or for out of state claimant, to register at the nearest resource center. In accordance with the Vermont Unemployment Insurance Claimant handbook, failure to register for work may result in a denial of benefits.

During our testwork over eligibility, we selected 42 claimants, 36 of which were required to register for work online at the VDOL's Job-Link website. In one instance, we noted the Department had no evidence to show that the claimant had registered for work. In this instance the claimant resided outside of Vermont and was therefore required to register at their nearest resource center and send the Vermont Department of Labor proof of their registration. As the VDOL did not receive proof of registration, the claimant's benefits should have been suspended until the eligibility requirement was met. However the Department failed to identify the noncompliance. In fiscal 2016 the claimant received \$11,596 in benefit payments.

The finding appears to be systemic in nature and is considered a significant deficiency in internal control.

This issue also impacts the compliance testwork over the federal Unemployment Compensation program and a similar compliance finding has been reported as finding 2016-021.

Recommendation

We recommend that the VDOL review its policies and procedures to ensure that issues are appropriately entered in the system to help ensure that benefits are paid only to eligible claimants.

Views of Responsible Officials

The Department has reviewed its procedures related to UI claimant work search enrollment, and has implemented a process to ensure out-of-state enrollment is properly and timely documented. This procedure requires the Department to notify claimants of the requirement to register for work with the appropriate out-of-state agency. Additionally, the procedure requires the Department to track out-of-state claimants to ensure they provide the Department with the appropriate documentation for UI eligibility. If documentation is not received in a prescribed timely manner an issue will be placed on the claimants' file.

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2016-005 Department of Labor Unemployment Compensation Trust Fund – Accounts Receivable Allowance Calculation

Background

The Vermont Department of Labor (VDOL) annually reviews the allowance for doubtful accounts related to the past-due employer contributions due to the State. Individual employer accounts are identified in the Aged Delinquency List and the Delinquent Account List reports from the CATS system. These reports detail, by employer, the amounts owed for delinquent contributions plus amounts owed for interest, penalties and other charges assessed as well as past due amounts owed for health care assessments and interest. Individual employer accounts are investigated to determine the status of receivables and the collectability of the accounts. Employer accounts may be collectible depending on whether or not an appeal is pending, how long the balance has been outstanding, when the account was turned over to an attorney and whether the employer is still in business. A doubtful amount is calculated for each overdue employer who has a balance of \$500 or greater.

The VDOL also annually reviews the allowance for doubtful accounts related to overpayments to claimants that are owed back to the State. The Federal quarterly 227 Report shows activity related to the recoveries of benefit overpayments including recovery collections, write-offs, any additional benefit overpayments occurring during the quarter, as well as an aging of benefit overpayments. Claimant receivables relating to overpayment of benefits that are over 2 years old are 100% reserved, while claimant receivables less than 2 years old are 40% reserved.

Finding

During our testwork over taxes receivable and the related reserve for uncollectible accounts, we noted several errors in the calculation for the allowance for doubtful accounts resulting in misstatements to both claimant and employer reserves. As a result, Taxes Receivable and Bad Debt Expense were understated by \$0.2 million.

The finding appears to be systemic in nature and is considered to be a significant deficiency.

A similar finding was noted as part of the June 30, 2015 report and was included as finding 2015-007.

Recommendation

We recommend that the Vermont Department of Labor develop formal procedures and a review process over recording the allowance for doubtful accounts related to taxes receivable.

Views of Responsible Officials

At the completion of the June 30, 2015 audit the Department responded with and was committed to a corrective action plan to address this issue. However, shortly after issuing a response to the audit findings the Department had significant staff turnover in key personnel as it relates to this issue. Specifically, the Department lost the Program Integrity Chief, the Unemployment Insurance Director, and the IT Manager. Therefore, the corrective action plan was not completed by the June 2016 deadline. The Department has since replaced these key personnel and has completed the corrective action plan as outlined in the 2015 report response.

The Department has made corrections to the existing reports and created additional reports that were outlined in the 2015 audit corrective action plan to ensure accurate reporting going forward.

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Below is a listing of the change/additions from the 2015 audit corrective action plan that have been requested of the Information Technology (IT) Unit and the current status.

Changes to the Aged Delinquency Report 313:

- HC interest needs to be included on the aged report the same as contribution interest
COMPLETED

New report request criteria 1:

- Aging of only delinquent contributions
COMPLETED

New report request criteria 2 –

- Aging of delinquent HC and HC Interest only
COMPLETED

New report request criteria 3:

- Aging of delinquent PINT – Penalties, fees and interest.
Report has been created. Testing and completion is due on March 31, 2017

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2016-006 Statewide Review and Analysis of Accounts Receivable

Background

The State's accounting process is very decentralized and relies heavily on the individual departments and agencies to properly and accurately record activity on a timely basis in the State's VISION accounting system as well as to provide year-end closing information to the Department of Finance and Management (Finance) in the form of the year end closing packages. Finance provides the individual departments and agencies with annual guidance on generally accepted accounting principles and the form and content of the information that is required in the year end closing packages; but relies on the individual departments and agencies to completely and accurately compile the data.

Finding

The Department of Finance and Management has been working with individual departments and agencies for several years to improve the financial reporting process and reduce the number of data errors and adjustments however, adjustments to the financial statements continue to be identified through the external audit. The cause of these adjustments is in part due to the need for more financial reporting knowledge in the individual departments and agencies, as well as departments and agencies not having adequate control procedures over the recording of financial data.

In order to capture the receivable data for the financial statements, Finance requires individual departments to prepare a CAFR-1 form. This form is a template that includes VISION chart-field information (i.e. fund, deptid, and account) for all items reported in the previous fiscal year, with subtotals by Business Unit. The departments must determine the full accrual, modified accrual, and an estimate of the uncollectible amount of receivables. They must also report the amount of un-deposited cash on hand, deferred revenue and refund of receipts as of the end of the fiscal year. There are also columns that compare last year's reported amounts to the current year's submitted amounts and if there are large changes in these amounts, there is a column to explain the differences. Along with the CAFR-1 form submission, the department must submit a copy of the procedures used for estimating the allowances for uncollectible receivables. Also included in Finance's year-end closing instructions is the following requirement:

Your department is required to maintain a detail listing to support the receivables reported on the CAFR-1. This listing should be readily available should the receivable be selected for detail testing by the auditor.

During fiscal 2016 we noted several adjustments relating to receivables across multiple departments and agencies. Specifically,

- 1) The Department of Vermont Health Access (DVHA) failed to include an allowance for uncollectible receivables on their CAFR-1 form related to the Third Party Liabilities – Choices for Care and Global Commitment receivables. This resulted in an overstatement of revenue and receivables within the Global Commitment Fund amounting to \$0.2 million.
- 2) The Department of Children and Family Services (DCF) picked up the wrong line on the report used to complete their CAFR-1 form related to the Food Stamp Recovery receivable. This resulted in an overstatement of revenue and receivables within the Special Fund amounting to \$0.2 million.

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- 3) The Center for Crime Victims' Services (CCVS) incorrectly prepared their CAFR-1 form and only included receivables related to fiscal year 2016 billings and neglected to include receivables relating to prior year billings. This resulted in an understatement of revenue and receivables within the Special Fund amounting to \$2.0 million.

While Finance is primarily responsible for the preparation of the State's financial statements, responsibility for the underlying data and activity resides with the respective departments. These adjustments indicate the continued need for more rigorous oversight and review of data submitted to ensure that the State's financial statements are complete and accurate.

The finding appears to be systemic in nature and is considered a significant deficiency in internal controls.

A similar finding was noted as part of the June 30, 2015 report and was included as finding 2015-004.

Recommendation

We recommend that the Department of Finance and Management work with the departments to perform a comprehensive review of their policies and procedures for recording year end receivables to help ensure that the State's financial statements are complete and accurate. Finance should work with each department to provide them with the knowledge and guidance relating to financial accounting and reporting concepts.

We also recommend that individual departments and agencies carefully review amounts reported on the CAFR-1 to ensure completeness and accuracy prior to submission to the Department of Finance and Management.

We further recommend that the Department of Finance and Management evaluate its procedures for reviewing year end closing packages and for analyzing data for completeness and accuracy of financial information received.

Views of Responsible Officials

DF&M's Response

DF&M will continue to work with State agencies and departments to improve their knowledge relating to financial accounting and reporting, and internal controls to help ensure the data which they provide is complete and accurate. DF&M will provide guidance on receivable accruals in the Internal Controls Newsletter that will come out at year end, and in the Year-End Closing Instructions. DF&M will meet with selected departments and agencies to better understand their accounts receivable accrual process, provide guidance, and answer any questions related to their CAFR-1 preparation. Through the meetings with individual departments and agencies, DF&M expects to gain better insight into how their CAFR-1 was prepared, which should allow us to perform a more comprehensive review and improve the accuracy of the amounts accrued for accounts receivable as part of the CAFR-1 accrual entry.

DVHA's Response

DVHA will modify the CAFR-1 procedures to include the reporting of the uncollectible receivables and will ensure that individuals responsible for preparing the CAFR-1 have read and understand the internal policies and procedures. DVHA will communicate with vendors the expectation to evaluate the allowance for uncollectible receivables, with DVHA approving the methodology used by the vendor in advance. The vendor will be required to submit results of estimated uncollectible balances. Regarding FY2017 specifically, DVHA

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has already instructed the vendor on the proper reporting of this amount and the methodology that should be used. The Financial Director III or Financial Director IV will be the approving authority for the CAFR-1, as this primarily relates to programmatic receivables.

DCF's Response

DCF Business Office has added an additional review to the CAFR-1 procedures, prior to sending the completed form to the Department of Finance and Management.

CCVC's Response

The audit finding is in reference to the Vermont Center for Crime Victim Services Restitution Unit receivables. The receivables represent only the restitution amounts advanced to eligible victims from the Restitution Special Fund. All other restitution is a "pass through" receivable – as the money is collected by the Restitution Unit, it is paid out to victims.

According to our Director of Victim Services when the Restitution Unit became operational in 2004, the Center's Financial Manager, IT Manager and Executive Director met with Finance and Management personnel to discuss how to report receivables for the Unit as part of the State's year end reporting. Pursuant to that discussion, the IT Manager created a summary report to extrapolate data from the Unit's collection software to generate the information required for the CAFR-1. When the Center's IT Manager left, the Director of Victim Services took over running the summary report from the restitution database and giving it to the Financial Manager for completion of the CAFR-1.

In November 2016, KPMG selected the Restitution Unit receivables for random sampling as part of the statewide audit. They requested the detailed reports to demonstrate what made up the summary information that we provided to them. We were able to provide a detailed report; however, the amounts were not the same as captured in the summary report. The outstanding balance due to the fund can change on a daily basis depending on collections. A complicating factor is how data can and cannot be reported from the Unit's collections software. There is no ability to "go back in time" and report exactly what was outstanding as of year-end closing on 6/30. However, with the assistance of Finance and Management, we were able to determine a more accurate receivable amount for the FY16 CAFR-1.

We are confident that the problem has now been corrected as we developed a new procedure for reporting the receivables going forward, beginning with the FY17 CAFR-1 receivables.

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2016-007 Agency of Transportation Department of Motor Vehicles – Revenue Classification

Background

The Department of Motor Vehicles (DMV) collects the following various major forms of revenue within the Transportation Fund (note: this is not an all-inclusive list of revenue collected by the DMV):

- **Motor Fuel Tax:** This tax is assessed on each gallon of motor fuel sold in the State of Vermont.
- **Purchase and Use Tax:** This tax is assessed on vehicles registered in the State of Vermont based on purchase price or book value, whichever is higher.
- **Diesel Fuel:** This tax is assessed on each gallon of diesel fuel sold in the State of Vermont which is not exempt for taxation. On each gallon of fuel, a 25 cent tax, a one cent fee dedicated to the petroleum cleanup fund and a three cent motor fuel transportation infrastructure assessment.
- **Motor Fuel Gasoline Assessments:** Fees charged for each gallon of gasoline sold in the State of Vermont. On each gallon of motor fuel sold by a distributor, a 19 cent tax and 2% of the retail price (exclusive of state and federal taxes).
- **Fuel Tax Assessment:** A tax of \$0.134 is assessed on each gallon of motor fuel sold by licensed distributors in the state, except for gallons of fuel sold between distributors licensed in the state.
- **Automobile Licenses and Registration:** Charges assessed to drivers allowing them to operate automobiles.

These major forms of revenue are collected by DMV through walk-in customers, by mail, by payments made online, or through the use of a bank lockbox.

For revenue received from walk-in customers, DMV Customer Service Specialists use a different form for each type of revenue to calculate the amount due and the revenue is recorded in the Point of Sale (POS) system. The total revenue per the POS is reconciled to the deposit and the Quality Control department gets the daily batches ready for data entry into Phoenix, DMV's IT System which includes ensuring that the appropriate coding was used for each transaction, before the batch is forwarded to Data Entry for keying into the system. The revenue is entered into Phoenix at the detail level as coded on the form initially prepared by the DMV Service Specialist.

Each revenue amount is keyed into the system using specific revenue code numbers for each type of revenue.

Finding

During our testwork, we selected 47 revenue sample items at the DMV within the Transportation Fund and in 4 instances noted the cash collected was recorded as revenue, however, the wrong type of revenue was recorded in the Transportation Fund due to the revenue account code being miss-keyed and the review process not being detailed enough to identify such errors. These errors did not impact total revenue within the Transportation Fund, but rather the types of revenue within the Transportation Fund.

The finding appears to be systemic in nature and is considered to be a significant deficiency.

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Recommendation

We recommend the Department of Motor Vehicles review its policies and procedures for recording the various types of revenue to ensure that the revenue collected is accurately recorded.

Views of Responsible Officials

It is important to note there was no resulting misstatement of and categorization of revenues, and that all resulting revenues due to the Transportation Fund and the Education Fund are accurately stated in VISION.

Findings 1-3: The Motor Fuels/Diesel Tax issues have been addressed through a procedural change implemented in August of 2016. This revenue is no longer processed through Data Entry; it is now delivered directly to Accounts Receivable for direct categorization into the VISION system. Removal of the unnecessary steps and inclusion of a secondary review of the proposed revenue distribution has increased the accuracy and reduced the opportunity for error.

Finding 4: This finding relates to the categorization of Purchase and Use Taxes collected on trucks. Currently these taxes are recorded in various fee codes based on the trucks weight but in the end all revenue is placed in the same VISION account code. This separation serves no internal purpose and we are not aware of any external purpose. We plan to discontinue this practice of using various fee codes based on the trucks weights, and record all the revenue in one fee code.

The Department is in the implementation phase of a robust Cashiering System with a go live date of September 2017. This Cashiering system will automatically categorize revenue based on the transaction rather than relying on human entry of revenue; thereby virtually eliminating the opportunity for miss-categorization. The system will improve the accuracy of all revenue categorization going forward.

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2016-008 Vermont Department of Labor Information Technology Controls

Background

The Vermont Department of Labor (VDOL or the Department) utilizes three primary computer systems – FARS, VABS, and CATS – to process activity related to VDOL programs.

- The FARS system is VDOL's internal financial accounting and reporting system. Costs incurred under this program are processed and paid for within the State's centralized accounting system, VISION. VISION then interfaces with the FARS system to populate the FARS system so that costs can be allocated to individual programs, including the Unemployment Insurance (UI) program. Once the costs are allocated, the FARS system is used as the basis of the Department's federal cash draw requests and federal financial status reports. As part of its internal control structure, the Department relies on information technology (IT) controls embedded within the FARS system and does not perform a supervisory review to ensure that the system is operating effectively.
- VABS (Voice Activated Benefit System) is VDOL's benefit management system responsible for determining claimant eligibility and processing benefit payments for unemployment insurance compensation.
- CATS (Contribution Tax System) is VDOL's employer tax system responsible for tracking employer information including gross wages reported, taxes paid, taxes due, and the employer experience rating. The system interfaces with VABS to import claim payment charges against the related employers and using this information from VABS and the quarterly gross wages data, the employer experience rating is automatically calculated.

During the year ending June 30, 2012, a review of the IT general control environment of the above systems was performed by KPMG. As part of this review, a number of control deficiencies were identified related to access to programs and data, change management, and computer operations. As a result of the control deficiencies, effectiveness testing of IT general controls and application controls specific to the UI could not be performed. During the period ending June 30, 2016, VDOL began to take action on some of those deficiencies; however, many of the control deficiencies identified during the 2012 review had not been fully corrected. As a result, we were unable to determine that adequate IT controls were in place regarding the allocation of costs, the determination of eligibility, the calculation of unemployment benefits, or the calculation of the employer experience rates.

Finding

During our testwork we noted that VDOL has not corrected the following general IT control deficiencies that were identified in the 2012 review:

FARS

- a. No segregation of duties exists for the FARS application as two IT System Developers have access to development and production. A lack of control over who has the ability to migrate software changes into production increases the risk that inappropriate and unauthorized changes could be made to software, moved undetected into production.

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As recommended in prior years, we continue to recommend that the DOL implement a process to segregate the migration of changes to production that would alternate between the two IT System Developers. This would accomplish the segregation without adding another resource.

- b. Restoration of backup data is performed on an as needed basis; however, no regular tests or policy exists. Without appropriate and periodic restoration tests, assurance cannot be placed on the reliability of backup media to recover key systems, application and data assets in the event of an emergency.

As recommended in prior years, we continue to recommend that the DOL develop and document the process to test, on a regular basis, restoral of data from tapes. The regularity of the test should be documented and maintained for the State's retention period.

VABS and CATS

- c. DOL applications (VABS and CATS) had weak password syntax with a minimum of 3 and maximum of 6 character required. Weak password parameters create weaknesses that can be exploited to gain unauthorized access leading to the compromise of key systems, applications and data assets.

The current VSE/ESA system limits passwords from 3 to 6 characters in length.

As recommended in prior years, we continue to recommend that the DOL IT upgrade to a newer version of IBM o/s that supports longer passwords.

- d. The initial control deficiency related to the fact that there was no periodic review of the DOL user access rights to the DOL network. The absence of periodic reviews of system or application access by appropriate Business and/or IT management increases the risk that unauthorized individuals may retain inappropriate access to key systems, applications and data assets. As of the 2014 fiscal year end, the DOL rescinds user access as their status changes daily through the Helpstar tracking system and reviews are performed quarterly. However, we were unable to obtain evidence to substantiate that quarterly reviews are performed for VABS/CATS.

As recommended in prior years, we continue to recommend the DOL Network group (with input from HR) conduct a quarterly review of the DOL staff with access to the DOL's network assets and deactivate inactive users pending further review and should remove access from accounts for terminated employees and maintain documentation of this review.

- e. Assets from backup media are restored when required for Operational reasons. There is no documented Disaster Recovery Plan or activity to restore systems to test recovery procedures. Without appropriate and periodic restoration tests, assurance cannot be placed on the reliability of backup media to recover key systems, applications and data assets in the event of an emergency.

As recommended in prior years, we continue to recommend that VDOL IT should immediately develop and document a Disaster Recovery Plan for recovering its IBM and related applications in the event of a data center disaster.

The finding appears to be systemic in nature and is considered a significant deficiency in internal control.

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This issue also impacts the compliance testwork over the federal Unemployment Compensation program and a similar compliance finding has been reported as finding 2016-020. A similar finding was noted as part of the June 30, 2015 report and was included as finding 2015-010.

Recommendation

We continue to recommend that the Department address the internal control deficiencies related to the key systems identified during the 2012 review and take appropriate actions to ensure that all deficiencies related to access to programs and data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the systems. In addition, the Department should review the application controls in the FARS, VABS and CATS systems that are instrumental to helping the Department maintain compliance and ensure that the controls are functioning properly.

Views of Responsible Officials

VDOL has put significant effort toward improving internal controls of key systems, establishing and implementing three administrative policies. The implemented policies are:

- VDOL Policy Number 21: Security Policies for the Labor Enterprise Computing (LEC) System
- VDOL Policy Number 22: Policy for Change & Configuration Management (CCM)
- VDOL Policy Number 23: Internal Review of Application Controls in FARS, VABS, and CATS system

These policies implement password demands, information security requirements, storage of data requirements, physical security requirements, physical access requirements, incident reporting, formal change management processes, and periodic reviews of application controls.

In addition, VDOL has purchased, installed and is testing our disaster recovery servers. Independent testing, review, and external certification will occur before the end of the 2nd quarter 2017.

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2016-009 Agency of Human Services Information Technology Controls

Background

During testwork over the eligibility process we noted that the Department of Children and Families (DCF) utilizes the ACCESS system, the State of Vermont's benefit eligibility maintenance system, to determine eligibility for the Medicaid program. After the eligibility specialist data enters financial information into the ACCESS system, ACCESS determines whether or not the applicant is eligible for benefits. The Department does not perform a supervisory review of the information entered to ensure completeness and accuracy. The Department ended its quality control (QC) review on September 30, 2013 to begin a new pilot program over the eligibility determinations made within Vermont Health Connect system, the State's new Health Care Exchange. The first two review pilots required by CMS focused on eligibility determinations within Vermont Health Connect, and did not cover any individuals who were not enrolled through this system. During SFY 2016 the State's PERM Pilot program reviewed 20 non-MAGI cases. Given that the eligibility process outside of Vermont Health Connect is manual, and the Health Connect System was still not fully functional in SFY2016, the review noted above, of 20 non-MAGI cases is not sufficient quality control review to support that eligibility determinations are properly made.

During the year ending June 30, 2012, a review of the IT general control environment of the ACCESS system was performed by KPMG. As part of this review, a number of control deficiencies were identified related to access to programs and data, change management, and computer operations. As a result of the control deficiencies, effectiveness testing of IT general controls and application controls specific to the Medicaid program could not be performed. During the period ending June 30, 2016, inquiries of Department management were made and we noted that the control deficiencies identified during the 2012 review had not been corrected. As a result, we were unable to test the application controls specific to the Medicaid program contained within the ACCESS system.

Finding

During our testwork we noted that DCF has not taken action to correct the following general IT control deficiencies that were identified in the 2012 review:

- a. We noted that appropriate IT Security Policy exists and is communicated to employees via intranet. However, no evidence was provided to substantiate that the policies are reviewed periodically and updated by management. We noted that several of the policies have not been revised since more than a year.

As recommended in prior years, we continue to recommend that IT Security Policies be reviewed on an annual basis to ensure compliance with new regulations as well as to address potential security threats.

- b. A change management document was not provided for review. We were notified that DCF ISD has formed a Standards Committee which will be working on the development of a formal written policy and procedure.

As recommended in prior years, we continue to recommend that AHS develops processes and mechanisms to implement these policies as well.

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- c. AHS does not have appropriate segregation of duties. Personnel who have development responsibilities currently have access to migrate changes to the production environment. We were informed that AHS is currently going to a reorganization that will address the segregation of duties requirements.

As recommended in prior years, we continue to recommend that conflicts of interest and concentration of power with any role be evaluated as part of the reorganization.

The finding appears to be systemic in nature and is considered a significant deficiency in internal control.

This issue also impacts the compliance testwork over the federal Medicaid program and a similar compliance finding has been reported as finding 2016-038. A similar finding was also noted as part of the June 30, 2015 report and was included as finding 2015-010.

Recommendation

We continue to recommend that DCF review its procedures and implement controls to ensure that a quality control review is performed over the eligibility determinations made by the ACCESS in order to verify that such eligibility determinations are accurate. This would include procedures to ensure that the data entered into the ACCESS system that is used to determine eligibility is accurate and properly supported with external documentation. In addition, we recommend that the Department review the internal control deficiencies related to the ACCESS system identified during the 2012 review and take appropriate actions to ensure that all deficiencies related to access to program data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the ACCESS system.

Views of Responsible Officials

- a. The Department for Children and Families recently implemented several new IT-related policies, including security policies. These policies are DCF specific and work in conjunction with the AHS policies.
- b. DCF established a formal written Access Control Policy as of November 1, 2016. DCF has been following the policy for years, but did not have it formally documented until recently.
http://intra.dcf.state.vt.us/information_services/it_policies_and_procedures/dcf_access_control_policy/view.
- c. In response to KPMG's concern about the mitigating control for emergency changes, DCF will make sure supervisors review and approve emergency changes to ensure they are appropriate and it will be added as a step in the SDLC. ACCESS mainframe technology does not utilize production/audit logs for code deployments. It has a built-in version control system. Code is checked out, changed, and checked back in prior to being pushed to production. A code review is performed utilizing a compare function, which locates and identifies all the changes in code between the current version and prior version.

Target date for completion of the formal written DCF Change Control SOP is April 30, 2017.

DCF is responsible for the IT controls surrounding the ACCESS system. DCF and DVHA enrollment & eligibility units rely on the ACCESS system for their programs and acknowledge the need to perform quality control reviews to ensure that accuracy of data entered and the maintenance of supporting documentation to identify and resolve discrepancies.

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(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2016-010

U.S. Department of Agriculture

Program Name and CFDA Number

SNAP Cluster

Supplemental Nutritional Assistance Program (CFDA #10.551)
State Administrative Matching Grants for the Supplemental Nutritional Assistance Program
(CFDA #10.561)

Program Award Number and Year

4VT430426	10/1/2014–9/30/2017
4VT400406	10/1/2015–9/30/2016

Criteria

The State is required to maintain adequate security over, and documentation/records for, EBT cards, to prevent their theft, embezzlement, loss, damage, destruction, unauthorized transfer, negotiation, or use (7 CFR Section 274.8(b)(3)).

Condition Found

The Department for Children and Families (the Department) maintains a locked room at the Waterbury State Office Complex (WSOC) in Waterbury, Vermont where all EBT cards are stored in a locked room. There are two keys for this room that are maintained by the EBT Specialist. The equipment used to code the EBT cards is also contained within the locked room. Once an EBT card has been coded and activated, it is put into an envelope for mailing. On a weekly basis the Department performs an EBT card count to ensure accurate records of EBT cards on hand, mailed, and destroyed are maintained. During our testwork over weekly EBT card counts we noted the following:

- A. For 1 of 8 EBT card counts selected for testwork, the Department's count of the cards issued did not agree to the total shipping labels produced which is the Department's evidence over the number of EBT cards shipped. The Department's reconciliation showed 382 cards were shipped however, per review of the shipping labels there were 313 EBT cards issued. The Department did provide the EBT Card Production Log reports from the third party EBT processor for the week which reconciled to the 382 cards shipped, however, it is not the Department's process to utilize this report during the EBT Card count process.
- B. For 1 of 8 EBT card counts selected for testwork, the Department was unable to provide the signed reconciliation support for the "weekly card activity sheet" to show that the EBT card count was complete and had been properly reviewed. In addition, the Department was unable to provide the shipping labels for the EBT card count, and as such we could not verify the number of EBT cards issued during this period of time.

The sample was not intended to be, and was not, a statistically valid sample.

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The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found was primarily a result of internal control deficiencies related to the EBT card reconciliation process and insufficient review procedures to ensure that the EBT card count is accurate and properly documented.

Effect

The effect of the condition found is that the State may not maintain adequate security over, and documentation/records for the safeguarding of EBT cards.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its existing EBT card count procedures and implement controls to ensure that a complete and accurate count is performed and supporting documentation is maintained and reviewed.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-011

U.S. Department of Agriculture

Program Name and CFDA Number

SNAP Cluster

Supplemental Nutritional Assistance Program (CFDA #10.551)
State Administrative Matching Grants for the Supplemental Nutritional Assistance Program
(CFDA #10.561)

Program Award Number and Year

4VT430426	10/1/2014–9/30/2017
4VT400406	10/1/2015–9/30/2016

Criteria

State agencies are required to automate their SNAP operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP (7 CFR Sections 272.10 and 277.18). This includes: (1) processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration; (2) providing an automatic cutoff of participation for households which have not been recertified at the end of their certification period by reapplying and being determined eligible for a new period (7 CFR Sections 272.10(b)(1)(iii) and 273.10(f) and (g)); and (3) generating data necessary to meet federal issuance and reconciliation reporting requirements.

Condition Found

The Department for Children and Families (the Department) entered into a contract with a third party service organization to manage and operate the Supplemental Nutritional Assistance Program (SNAP) EBT card processing. The Department determines participant eligibility and authorizes benefits to be issued to a magnetic strip card, or the EBT card, where it is used at point-of sale devices in retail stores. Each participant is authorized to receive a certain dollar amount to be utilized for food purchases.

The third party service organization is responsible for the overall quality, security and integrity of the processing of the point-of sale transactions of the EBT cards. The third party service organization provides reports to the Department to assist in the daily settlement process in order to ensure that the transactions processed are complete and accurate. In addition, the third party service organization has an annual audit of its internal controls, or a SOC 1 report that tests the design and operating effectiveness of the internal controls within the third party service organization over the systems used to process the point-of-sale transactions. The current audit report issued during the period ending June 30, 2016 provided by the third party service organization was for the period October 1, 2014 to September 30, 2015.

During our testwork over the Department's process to monitor the transactions processed by the third party service organization, we noted that while the Department had obtained the annual SOC 1 report from its third party service organization and appeared to have reviewed the SOC 1 report based upon its knowledge of the audit results, we were unable to obtain written documentation to support that the

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Department had reviewed the annual SOC 1 report for the third party service organization. We further noted that the Department did not have procedures in place to document their review over the complementary user controls and ensure the controls are documented and performed by the Department consistently during the year.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is primarily due to a lack of formal procedures regarding the review of the SOC 1 report to ensure the review is documented, that any deficiencies noted within the report are properly followed up on when necessary, or that proper complementary user controls have been implemented as outlined within the SOC 1 report. The Department indicated that the SOC 1 report did not contain any exceptions and therefore no further review or follow up was performed the Department.

Effect

The effect of the condition found is that the Department has not sufficiently documented its review over the third party service organization's SOC 1 report. If the third-party service organization had control deficiencies identified in the SOC 1 report, the Department may be unaware and thus not take action to ensure there was no impact on the State's EBT program.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department obtain and review the third party service organization's SOC 1 report to ensure their controls are operating effectively and that it has adequately addressed all complementary user control considerations. The Department should also ensure its review of the SOC 1 report is documented and addresses any control exceptions noted by the auditor that may impact the transactions processed by the third party service organization on behalf of the State. If such exceptions exist, it should be noted if other controls should be implemented by the Department to mitigate those control deficiencies. The Department should also ensure that its complementary user controls are documented and consistently applied during the year.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-012

U.S. Department of Agriculture

Program Name and CFDA Number

SNAP Cluster

Supplemental Nutritional Assistance Program (CFDA #10.551)
State Administrative Matching Grants for the Supplemental Nutritional Assistance Program
(CFDA #10.561)

Program Award Number and Year

4VT430426	10/1/2014–9/30/2017
4VT400406	10/1/2015–9/30/2016

Criteria

States must have systems in place to reconcile all of the funds entering into, exiting from, and remaining in the State's Supplemental Nutritional Assistance Program (SNAP) benefit account with Treasury and EBT contractor records. This includes a reconciliation of the State's issuance files of postings to recipient accounts with the EBT contractor. States (generally through the EBT contractor that operates the EBT system) must also have systems in place to reconcile retailer credit activity as reported into the banking system to client transactions maintained by the processor to the funds drawn down from the EBT benefit account with Treasury. States' EBT system processors should maintain audit trails that document the cycle of client transactions from posting to point-of-sale transactions at retailers through settlement of retailer credits. The financial and management data that comes from the EBT processor is reconciled by the State to the SNAP issuance files and settlement data to ensure that benefits are authorized by the State and funds have been properly drawn down. States may only draw Federal funds for authorized transactions, i.e., electronic point-of-sale purchases supported by entry of a valid personal identification number (PIN) or purchases using manual vouchers with telephone verification supported by a client signature and an EBT contractor authorization number (7 CFR Sections 274.3(a)(1) and 274.4(a)).

2 CFR Section 200.62 requires a system of internal control to be in place to ensure that transactions are properly accounted for and are executed in compliance with federal regulations and that funds are properly safeguarded against loss from unauthorized use or disposition. A system of internal control is expected to provide reasonable assurance that these objectives will be achieved. A component of the system of internal control is to ensure that sufficient monitoring controls have been implemented to monitor compliance with federal requirements.

Condition Found

The Department for Children and Families (the Department) has entered into a contract with a third party service organization to manage and operate the SNAP EBT card processing. The Department determines participant eligibility and authorizes benefits to be issued via a magnetic strip card, or the EBT card, where it is used at point-of sale devices in retail stores. Each participant is authorized to receive a certain dollar amount to be utilized for food purchases.

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The third party service organization is responsible for the overall quality, security and integrity of the processing of the point-of sale transactions of the EBT cards. The third party service organization submits reports to the Department to assist in the daily settlement process to ensure that the transactions processed are complete and accurate. The third party service organization also submits reports that are used to initiate the federal funds cash draw process from the State of Vermont's benefit account to reimburse the third party service provider for the net EBT settlement costs.

During our testwork over the EBT reconciliation process, we noted that while the Department performs the required daily reconciliation between EBT daily settlement activity and the daily request for reimbursement from the federal benefit account, the Department currently does not perform a supervisory review to ensure that the daily reconciliations have been completed or that the reconciliation is complete and accurate.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is primarily due to insufficient control procedures to ensure that a supervisory review is performed over the reconciliation process.

Effect

The effect of the condition found is that that if an error was made within the reconciliation process, the Department does not have procedures in place to identify the error timely.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department implement policies and procedures to ensure the daily EBT reconciliations are performed accurately and completely and that there is a supervisory review over the reconciliations.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-013

U.S. Department of Agriculture

Program Name and CFDA Number

SNAP Cluster

Supplemental Nutritional Assistance Program (CFDA #10.551)
State Administrative Matching Grants for the Supplemental Nutritional Assistance Program
(CFDA #10.561)

TANF Cluster

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)

Low-Income Home Energy Assistance (CFDA #93.568)

Program Award Number and Year

4VT430426	10/1/2014–9/30/2017
4VT400406	10/1/2014–9/30/2015
1502VTTANF	10/1/14–9/30/15
1602VTTANF	10/1/15–9/30/16

Criteria

2 CFR Sections 200.303 and 200.62 requires that nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal statutes, regulations, and the terms and conditions of the federal award over the allowability of costs and related participant eligibility requirements.

Condition Found

The Vermont Economic Services Division of the Department for Children and Families (the Department) utilizes the ACCESS system, the State of Vermont's benefit eligibility maintenance system, to determine eligibility for the Temporary Assistance for Needy Families (TANF), Low Income Home Energy Assistance Program (LIHEAP) and the Supplemental Nutritional Assistance Program (SNAP). After the eligibility specialist data enters financial information into the ACCESS system, ACCESS determines whether or not the applicant is eligible for benefits as well as the amount of benefits the participant is eligible for. The Department has implemented a supervisory review or quality control inspection review process whereby each supervisor within the 12 district offices maintained throughout the State is required to complete a sample of 12 recent eligibility determinations in order to ensure that the information entered into ACCESS by the eligibility specialist is complete and accurate and the resulting eligibility determination has been made correctly in accordance with federal regulations.

During our testwork over the supervisory case review process, we noted the following:

- A. For 1 of 40 reviews selected for testwork, the Department was unable to provide the last page of the initial supervisory case review (SCR) that was completed as part of the review process. The last page

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of the SCR verifies the participant's initial eligibility and if any corrective actions are required to be taken. As such, we were unable to determine if this participant's eligibility was reviewed and what determination was made by the Department.

- B. For 1 of 40 reviews selected for testwork, the Department was unable to locate the SCR review file to support that the review had been completed. As a result, we were unable to verify whether or not the Department had reviewed the eligibility determination.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is primarily due to insufficient internal controls to ensure that all documentation related to supervisory case reviews is properly maintained.

Effect

The effect of the condition found is that errors in eligibility or the calculation of a benefit amount could occur and the Department may not identify and correct the error timely.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its procedures and continue to implement and refine controls to ensure that a documented quality control review is performed over the eligibility determinations made by the ACCESS system in order to verify that such eligibility determinations and benefit payments are accurate.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-014

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster

National School Lunch Program (CFDA #10.555)
Summer Food Service Program for Children (CFDA #10.559)

Program Award Number and Year

2015IN109844	7/1/14–9/30/15
2015IN109744	7/1/14–9/30/15
2016IN109844	7/1/15-9/30/16
2016IN109744	7/1/15-9/30/16

Criteria

1. Administering agencies may disburse program funds only to those organizations that meet eligibility requirements. Under the National School Lunch Program (NSLP), School Breakfast Program (SBP), and Special Milk Program (SMP), this means the definition of “school food authority” (SFA) as described at 7 CFR Sections 210.2, 215.2, and 220.2, respectively. Eligible Summer Food Service Program (SFSP) organizations are described at 7 CFR Section 225.2 under the definition of “sponsor.” Additional organizational eligibility requirements apply to the SFSP, NSLP Afterschool Snacks, and the SBP at the school or site level.
2. A pass-through entity (PTE) must clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR Section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR Section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR Section 200.331(a)(3)).
3. General Reviews

State agencies administering the programs included in the Child Nutrition Cluster are required to perform specific monitoring procedures in accordance with 7 CFR Sections 210.18, 210.19(a)(4), 220.8(j), 220.8(o)(9), and 220.13(f) (NSLP and SBP); 7 CFR Section 215.11 (SMP); and 7 CFR Section 225.7 (SFSP). Section 207 of HRFKA amended Section 22 of the Richard B. Russell National School Lunch Act (42 USC 1796c) by requiring FNS to prescribe and administer a “unified system...to ensure that local food service authorities participating in the [NSLP and SBP]...comply with those Acts...” FNS developed a State administrative review process that (1) combined elements of the existing Coordinated Review Effort (CRE) and School Meals Initiative (SMI) review processes; (2) accounted for the transition from a 5-year to a 3-year review cycle; and (3) incorporated review of the SBP for any SFA that operates both programs. The unified administrative review system is prescribed by 7 CFR Section 210.18. Beginning with the 2013-14 school year, FNS authorized State

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agencies to either (1) adopt the new administrative review process in its entirety; or (2) continue using the existing CRE process in its entirety, plus a weighted nutrient analysis.

a. Administrative Reviews

An administrative review is the comprehensive on-site evaluation of a SFA operating the NSLP/SBP. Every SFA must receive an administrative review during each review cycle. The cyclical scheduling of reviews is outlined below.

b. Follow-up Reviews

A follow-up review is an on-site inspection of a SFA, subsequent to an administrative review, to ensure that the SFA has corrected deficiencies disclosed by the administrative review. Follow-up reviews are not required for State agencies opting to use the new administrative review procedures. However, for those State agencies continuing to use CRE procedures, follow-up reviews are required as outlined in 7 CFR Section 210.18(i).

c. Additional Administrative Reviews (AAR)

State agencies are required to make AARs of selected LEAs that have a demonstrated level of, or are at high risk for, administrative error. AARs are in addition to regular cyclical administrative reviews.

Section 207 of the HHFKA (implemented by amendments to 7 CFR Sections 210.18(c)(1) and (2) in 77 FR 4088, January 26, 2012) changed the administrative review cycle from 5 years to 3 years, effective July 1, 2013. The 2012-13 school year was the final year of the final 5-year cycle; the 2013-14 school year was the first year of the new 3-year cycle (42 USC 1769c(b)(3) and 42 USC 1776(h); 7 CFR Section 210.18).

4. Certification Activity

In addition to the subrecipient monitoring requirements above, State agencies administering the NSLP and SBP are required to conduct certification activity. The objective of such activity is to ensure that SFAs are complying with the updated nutritional standards mandated by Section 201 of the HHFKA. Before providing the performance-based reimbursement (currently 6 cents per lunch served) to SFAs, a State agency must certify that SFAs can demonstrate that they are serving school meals that meet the updated nutritional standards. SFAs have three options to demonstrate compliance. Options 1 and 2 entail State agency desk reviews of documentation submitted by SFAs. Option 1 documentation includes menus and nutrient analysis, while option 2 documentation consists of menus and a simplified nutrient analysis. For option 3, SFAs can be certified over the course of a regular State agency-conducted administrative review, if the State offers that option. This type of review is required only one time per SFA (7 CFR Section 210.7(d)).

5. Evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR Section 200.331(b)).

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6. Sponsors are not required to separately report operating and administrative costs, although they must maintain records of them. Sponsor reimbursement is no longer related to operating and administrative cost comparisons; it is determined solely by applying the applicable meals times rates formula. Separate rates are used to compute reimbursement for operating and administrative costs, but a sponsor can use its entire reimbursement payment for any combination of operating and administrative costs (Title VII, Section 738 of Pub. L. No. 110-161, December 26, 2007).
7. Non-Federal entities are prohibited from making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR Section 180.220. All nonprocurement transactions entered into by a pass-through entity (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR Section 180.215.

Condition Found

During our testwork over the subrecipient monitoring process utilized by the Vermont Agency of Education (the Agency), we noted the following:

Application Reviews

During our testwork over the Agency's process to review applications to determine eligibility for School Food Authorities (SFA or subrecipient), we noted the following:

- A. For 1 of 40 SFA sites selected for testwork, the Agency did not collect all of the forms the Agency requires to be submitted on the program application. The subrecipient indicated in the application they would not be using the notification of eligibility determination as provided by the Agency. If this form is not going to be used by the subrecipient, the application indicates what information needs to be sent in to the Agency as part of the approval process. This information was not submitted by the subrecipient. It was unclear as to why the forms were missing or whether the Agency had followed up on the missing information.
- B. For 6 of the 25 SFA applications selected for testwork, we noted that the authorized signature dates on the SFA's annual application were dated prior to July 1, 2015, which was the start of the current year application period. In all 6 instances, the dates on the application were from 2013 or 2014. The signature on the application includes an attestation from the SFA related to suspension and debarment. Based upon the authorization date of the annual application, it was unclear whether or not the SFA had provided required annual attestation to the Agency.

Award Identification

- C. During our testwork over award identification, we noted that applications completed by all 25 SFA's identified only CFDA #10.555, National School Lunch Program. The information related to the other programs included within the Child Nutrition Cluster, as well as the name of the federal awarding agency, were not included within the application.

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During the Award Monitoring

During our testwork over subrecipient monitoring, we noted the following regarding the Agency's program monitoring visits:

- D. For 4 of 6 monitoring reviews selected for testwork, the Agency issued their letter of findings later than the required 30 day timeframe required by federal regulations.
- E. For 2 of 6 monitoring reviews selected for testwork, the Agency has not issued their letter of findings. The Agency has exceeded the 30 day timeframe required by federal regulations.
- F. Upon completion of the administrative review, the Agency leaves draft findings with the SFA. For 4 of 6 monitoring reviews selected for testwork, we noted that follow up documentation had been received, however there was no evidence that the information had been reviewed by the Agency or that the draft findings had been resolved.
- G. For 1 of 6 monitoring reviews selected for testwork, the onsite SFA and school onsite assessment was incomplete. As a result, we were unable to conclude that the required procedures had been performed as part of the monitoring review process.
- H. For 1 of 6 monitoring reviews selected for testwork, the required benefit and issuance checklist could not be located. As a result we were unable to conclude that the required monitoring procedures had been performed as part of the monitoring review process.

Risk Assessments

- I. For all 25 subrecipients selected for testwork, we noted the grant agreement was executed after the effective implementation date of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance) and the State of Vermont Agency of Administration Bulletin No. 5, Policy for Grant Issuance and Monitoring (Bulletin 5). Under the requirements of the Uniform Guidance, the Agency is required to evaluate each subrecipient's risk of noncompliance for the purposes of determining the appropriate subrecipient monitoring related to the subaward. In addition, Bulletin 5 requires that unless prohibited by statute or regulation, and prior to the issuance of a grant award, the Agency must determine if each potential grantee is eligible to receive an award and shall not issue an award to an ineligible organization (pre-award eligibility determination). For all 25 subrecipients, we noted the Agency did not complete either a pre-award eligibility determination in accordance with Bulletin 5 or a risk assessment as required by the Uniform Guidance.

The sample was not intended to be, and was not, a statistically valid sample.

A similar finding was noted as part of the June 30, 2015 audit and was reported as finding 2015-012.

Cause

The cause of the condition found is primarily due to insufficient procedures related to the entire monitoring process over subrecipients, including the review and approval of applications, notification of federal funding awarded, as well as the documentation and completion of during the award monitoring procedures. In addition, the Agency does not have policies and procedures in place to perform pre-award eligibility

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determination risk assessments for SFA's as the Agency indicated they did not believe it was required as the federal program is an entitlement program.

Effect

The effect of the condition found is that the Agency may not perform the required follow-up actions and obtain all pertinent information from the subrecipient as part of the application process. In addition, instances of noncompliance identified through its monitoring process may not be communicated timely, and as a result, the Agency cannot follow up on its recommendations in a timely manner. In addition the types and frequency of monitoring procedures performed may not be adequate as the Agency has not performed a risk assessment over the SFAs.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Agency review its existing monitoring procedures and develop controls to ensure that risk assessment procedures are performed timely over subrecipients. These procedures should ensure that subrecipient monitoring procedures performed are linked to the specific risks identified as part of the risk assessment process. We recommend that the Agency develop written procedures for reviewing program applications to ensure all applications are complete and accurate, and consistently reviewed by the Agency in order to verify that all eligibility requirements have been met to participate in the federal program. In addition, we recommend that the Agency review its existing programmatic monitoring procedures and develop controls to ensure that all procedures are performed timely and are properly documented. The written procedures should ensure that all required documentation is compiled and maintained to support each monitoring visit and whether or not matters identified during the review require corrective action. Further, a supervisory review should be conducted to ensure each file is complete prior to closure.

Views of Responsible Officials

The Agency of Education disagrees with the Award Identification and Risk Assessment portions of this finding.

Award Identification: CFDA numbers were on the Applications upon go-live of the Colyar system in April 2016.

Risk Assessments per Bulletin 5: Vermont Bulletin 5 requires the Agency of Education (AOE) to conduct both pre-Award Eligibility Determination and a Risk Assessment "prior to issuance of a grant award." The AOE considers the National School Lunch Program (NSLP) to be federal entitlement funds. Funds are distributed based on claims submitted using a formula of meal count x rate. Participants complete annual applications that are reviewed by AOE staff for acceptance into the program. Once accepted, eligible individuals have a legal right to participation in the program. There are no "grant awards" for these funds; therefore the requirements of Bulletin 5 section V.B. risk assessments are not triggered.

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Therefore, the AOE believes it meets the intent of the pre-award eligibility determination using current procedures that place a financial hold on all subrecipients that are delinquent in their submission of single audit reports or the annual subrecipient report for the most current three years. The AOE will not process federal reimbursement funds to entities appearing on the suspension and debarment list.

Appendix I contains further comments and our corrective action plan to resolve the outstanding issues contained in the finding.

Rejoinder

The applications that were selected for testwork were for the year ending June 30, 2016 and were approved prior to the April 2016 date referred above in the views of responsible officials. The applications reviewed and referred to within the condition found above did not contain the required award information.

2 CFR section 200.331(b) of the Uniform Guidance requires a pass-through entity to evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward. The requirement applies to all subawards including federal entitlement funds. The Agency passes federal funding to eligible School Food Authorities who meet the definition of a subrecipient as found 2 CFR section 200.93. The Agency did not have any documentation to support it had performed the required risk assessment as required by 2 CFR section 200.331(b).

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Finding 2016-015

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster

National School Lunch Program (CFDA #10.555)
Summer Food Service Program for Children (CFDA #10.559)

Program Award Number and Year

2015IN109844	7/1/14–9/30/15
2015IN109744	7/1/14–9/30/15
2016IN109844	7/1/15-9/30/16
2016IN109744	7/1/15-9/30/16

Criteria

Sponsors are not required to separately report operating and administrative costs, although they must maintain records of them. Sponsor reimbursement is no longer related to operating and administrative cost comparisons; it is determined solely by applying the applicable meals multiplied by the applicable reimbursement rates. Separate rates are used to compute reimbursement for operating and administrative costs, but a sponsor can use its entire reimbursement payment for any combination of operating and administrative costs (Title VII, Section 738 of Pub. L. No. 110-161, December 26, 2007).

Condition Found

Amounts paid to a subrecipient represent the total of the claims submitted by the individual school food authorities (SFA). SFA's submit claims for reimbursement through the Agency of Education's payment system, Colyar. In April of 2016, the Agency completed a significant upgrade to Colyar system that resulted in significant delays in processing payments for an extended period of time. During our testwork over allowability, we noted that for 7 of 25 claims selected for testwork, the SFA was unable to submit its claim timely for the month of April 2016. Specifically we noted the following:

- A. Four of the claims could not be submitted until June 2016 and were paid in July 2016. The Agency does not process claims between June 15th and June 30th each year in order for the Agency to complete its year-end close out process. The claims were to have been processed on July 7, 2016, however there was a formatting issue with the export file used to process the payments and the claims were not paid until July 31, 2016.
- B. Two of the claims could not be submitted until July 2016. One of the claims was paid in July 2016 and the other claim was not paid until September 2016 due to a system error identified by the developer whereby prior year payments made by the Colyar system were not properly being identified. Once the error was identified, all payments were halted until the system error could be fixed.
- C. One of the 7 claims could be not submitted until November of 2016 as the subrecipient could not access the Colyar system. Once submitted the claim was paid in December 2016.

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The sample was not intended to be, and was not, a statistically valid sample.

The condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is primarily due to insufficient management controls related to the implementation of a system upgrade to the Agency's claims reimbursement system.

Effect

The effect of the condition found is that the SFA's could not timely request reimbursement for costs incurred under the federal program. This resulted in the SFA's incurring significant costs to operate the food service program on behalf of the Agency that were not reimbursed timely by the Agency.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Agency review its existing claims reimbursement process and implement controls to ensure that claims can be submitted timely. The Agency should also review its existing procedures to ensure that sufficient policies and procedures are in place to manage system upgrades.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-016

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster

National School Lunch Program (CFDA #10.555)
Summer Food Service Program for Children (CFDA #10.559)

Program Award Number and Year

2015IN109844	7/1/14–9/30/15
2015IN109744	7/1/14–9/30/15
2016IN109844	7/1/15-9/30/16
2016IN109744	7/1/15-9/30/16

Criteria

The state is required to contribute state appropriated funds amounting to at least 30% of the funds it received under Section 4 of the National School Lunch Act (NSLA) in the school year beginning July 1, 1980, unless otherwise exempted by 7 CFR Section 210.17.

Condition Found

On an annual basis, the Vermont Agency of Education (the Agency) makes a payment of state funds to each School Food Authorities (SFA) that is considered to be the State's share of matching funds. The amount paid to each SFA is based on that SFA's percentage of claims incurred relative to the entire program. For example, if SFA XYZ accounts for 10% of all claims paid under the program, then the Agency will pay 10% of its required match to SFA XYZ. State match payments are reported like all other school food service account funds in their annual financial report as nonprofit food service account revenues. During our testwork, we selected 25 state match payments and were unable to reconcile the amounts reported for 23 of them to the amounts paid by the Agency.

The sample was not intended to be, and was not, a statistically valid sample.

A similar finding was noted as part of the June 30, 2015 single audit and was reported as finding 2015-013.

Cause

The cause of the condition found is that the Agency does not review the matching amounts the School Food Authority reports in their annual financial report to verify they agree with the amounts sent to them.

Effect

The effect of the condition found is that the Agency may not be accurately reporting the matching revenues and expenditures.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

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Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency review its existing procedures to ensure that there are adequate controls and procedures in place to ensure funds paid to subrecipients for matching purposes are used for allowable purposes under the Child Nutrition Cluster.

Views of Responsible Officials

The Agency of Education disagrees with this finding. The Child Nutrition Team reviews the information reported on the Financial Reports and consultants request that Business Managers correct the reported information when errors are found. Appendix I contains further comments and our corrective action plan to resolve the outstanding issues with this finding.

Rejoinder

As noted within the condition found, we were unable to reconcile the amounts reported by the School Food Authority to the amount paid by the Agency for 23 of the 25 items selected for testwork.

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Finding 2016-017

U.S. Department of Agriculture

Program Name and CFDA Number

Special Supplemental Nutrition Program for Woman, Infants, and Children (CFDA 10.557)

Program Award Number and Year

15154VT706W1003	10/1/14-9/30/15
15154VT706W1006	10/1/14-9/30/15
16164VT706W1003	10/1/15-9/30/16
16164VT706W1006	10/1/15-9/30/16

Criteria

An applicant must meet an income standard established by the State agency or be determined to be automatically (adjunctively) income-eligible based on documentation of his/her eligibility, or certain family members' eligibility, for the following Federal programs: (1) Temporary Assistance for Needy Families (TANF); (2) Medicaid; or (3) Supplemental Nutrition Assistance Program (formerly the Food Stamp Program) (SNAP). State agencies also may determine an individual automatically income-eligible based on documentation of his/her eligibility for certain State-administered programs.

Except in limited circumstances, Woman, Infants, and Children (WIC) applicants must be physically present for eligibility screenings and provide proof of identity and residency. An applicant also must meet the State agency's residency requirement. Except in the case of Indian State agencies, the applicant must reside in the jurisdiction of the State. Documentation of these determinations may consist of descriptions of documents evidencing the applicants' identities and residency (e.g., notations in the participant's file identifying specific documents that local agency staff have viewed and found acceptable), copies of the documents themselves, and/or the applicants' written statements of identity and residency when no other documentation exists. Certification procedures prescribed by the State agency set conditions for relying on these different forms of documentation (42 USC 1786(f)(23); 7 CFR Sections 246.7(c)(1) and (c)(2)(i) and 246.7(i)(3) and (4)).

Condition Found

During our testwork over the eligibility process, we noted that at the time of application to the WIC program if an applicant has a current eligibility determination that has been performed by other State of Vermont Departments for the Medicaid, TANF, or SNAP programs, the Vermont Department of Health (the Department) adjunctively, or automatically, determines the applicant eligible for the WIC program as allowed under federal regulations. The Department documents within the applicant's case file that they are adjunctively eligible and does not perform a subsequent financial eligibility determination. During our testwork, we noted that for 2 of 40 participants selected for testwork, the participant was not eligible for the Medicaid, TANF or SNAP programs at the time the WIC eligibility determination was performed and there was no documentation maintained by the Department to ensure that the participants met the financial eligibility requirements for this program.

The sample was not intended to be, and was not, a statistically valid sample.

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The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is primarily due to insufficient procedures in place to ensure documentation is maintained either in paper form or through notation within the case file to support that the participant has met the financial eligibility requirements for the program in the event the participant is not adjunctively eligible for benefits. The Department currently does not have a process in place to ensure participants have met the financial eligibility requirements for the program if the participant is not adjunctively eligible for the WIC program.

Effect

The effect of the condition found is that benefits could be paid on behalf of individuals that are not eligible for the WIC program.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review its existing policies related to the eligibility process to ensure they obtain the documentation necessary to support that participants have met all eligibility requirements and that the documentation reviewed to support its determination is properly maintained within the participant's case file in accordance with federal regulations.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-018

U.S. Department of Agriculture

Program Name and CFDA Number

Special Supplemental Nutrition Program for Woman, Infants, and Children (CFDA 10.557)

Program Award Number and Year

15154VT706W1003	10/1/14-9/30/15
15154VT706W1006	10/1/14-9/30/15
16164VT706W1003	10/1/15-9/30/16
16164VT706W1006	10/1/15-9/30/16

Criteria

A State agency operating a retail food delivery system must take the following actions to ensure that payments of WIC food funds to vendors conform to program regulations and the State agency's vendor, farmer, or farmers' market agreements to detect errors and, where applicable, enforce price limitations:

- a. The State agency must have in place a process for reviewing all, or a representative sample of FIs submitted by vendors for redemption. For EBT systems, this would be a daily automated reconciliation process with follow-up procedures to resolve any discrepancies identified. The review is done on an aggregate basis rather than on a vendor, farmer, or farmers' market basis. Because of the wide disparity in the number of FIs processed by State agencies, there are no criteria for determining what constitutes a representative sample, other than that it must be a representative sample of FIs submitted (7 CFR Section 246.12(k)(1)).
- b. The State agency must follow up on FIs containing errors and other questionable FIs detected through this process within 120 days following detection. Regulations at 7 CFR Sections 246.12(k)(2) through (k)(5) describe appropriate follow-up actions (7 CFR Section 246.12(k)).

Condition Found

The Vermont Department of Health (the Department) has entered into a contract with a third party service organization to manage and operate the Women, Infants and Children Processing and Settlement System. The Department authorizes benefits to be issued to a magnetic strip card, or the E-WIC card, where it is used at point-of sale devices in retail stores. Each participant is authorized to receive certain quantities of food types each month versus a dollar amount to be utilized for food purchases. For example, a participant will receive authorization to purchase a particular quantity of cereal for the month and the participant can select from certain brands of cereal as controlled by the Department.

The third party service organization is responsible for the overall quality, security and integrity of the processing of the point-of sale transactions of the E-WIC cards. The third party service organization provides reports to the Department to assist in the daily settlement process in order to ensure that the transactions processed are complete and accurate. In addition, the third party service organization has an annual audit of its internal controls, or a SOC 1 report that tests the design and operating effectiveness of the internal controls within the third party service organization over the systems used to process the

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point-of-sale transactions. The current audit period of the third party service organization's SOC 1 was July 1, 2015 to June 30, 2016.

During our testwork over the Department's process to monitor the transactions processed by the third party organization, we noted the following:

- A. We were unable to obtain documentation to support that the Department has obtained and reviewed the current SOC 1 report for the third party service organization. Per review of the report, we noted that there were exceptions identified by the auditor during its tests of operating effectiveness of controls related to change management and logical access that were not evaluated by the Department to determine whether or not these control exceptions impacted the transactions processed on behalf of the Department.
- B. The system used by the third party service organization is designed with the assumption that certain controls would be implemented by user entities and that the implementation and functioning of those controls is necessary to achieve certain control objectives necessary to ensure appropriate processing of transactions. These controls are referred to as complementary user entity controls and are outlined within the SOC 1 report. As part of our audit, we reviewed the complementary user entity controls with the Department and we were unable to obtain sufficient documentation to support that the complementary user entity controls were established by the Department. Specifically we noted the following:
 - a. Controls should be established to ensure transactions are properly authorized, complete and accurate: The Department indicated that all transactions are authorized at the retail store level and periodic educational and compliance buys in stores are performed to monitor grocer compliance. The Department reviews daily invoices provided by the third party service provider by comparing such invoices to prior invoices to ensure they are comparable but there was no documentation to support that this type of review had been completed.
 - b. Controls should be established to ensure output reports are reviewed by the appropriate user organization personnel for accuracy: The Department indicated that staff review daily and monthly reports, depending on the frequency of the report itself. For example, the daily state issuer report, which is used to process payments, is reviewed daily and compared to the expected amount of redemptions based on recent month's redemptions for the same period. While we were able to verify that this reconciliation had taken place, there was no evidence that it had been reviewed to ensure it was accurate to obtain documentation to support that these reviews were being performed by the Department.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is primarily due to insufficient procedures to ensure the Department has properly documented its monitoring procedures over transactions processed by the third party service organization. This is a new process for the Department as prior to using a retail food delivery system, the Department had utilized a home delivery system, whereby contractors delivered specific food packages

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each month to eligible participants. During the year ending June 30, 2016, the Department transitioned from a home delivery system to a retail food system.

Effect

The effect of the condition found is that transactions could have been processed inaccurately by the third party service organization and as the Department did not have sufficient documented complementary user controls implemented, it would not have been able to identify the error timely.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department obtain and review the third party service organization's SOC 1 report to ensure their controls are operating effectively and that it has adequately addressed all complementary user control considerations. The Department should also ensure its review of the SOC 1 report is documented and addresses any control exceptions noted by the auditor that may impact the transactions processed by the third party service organization on behalf of the State. If such exceptions exists, it should be noted if other controls should be implemented by the Department to mitigate those control deficiencies. The Department should also ensure that its complementary user controls are documented and consistently applied during the year.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-019

U.S. Department of Agriculture

Program Name and CFDA Number

Child and Adult Care Program (CFDA 10.558)

Program Award Number and Year

201616N109044	07/01/2015-09/30/2016
201616N105044	07/01/2015-09/30/2016
201616N202044	07/01/2015-09/30/2016
2015IN109055	07/01/2014-09/30/2015
2015IN105044	07/01/2014-09/30/2015
2015IN202044	07/01/2014-09/30/2015

Criteria

1. Eligibility for Subrecipients
 - a. State agencies may disburse CACFP funds only to those organizations that meet the eligibility requirements stated in the following program requirements: (1) generic requirements for all institutions at 7 CFR Section 226.15 and 42 USC 1766(a)(6) and (d)(1); (2) additional requirements for sponsoring organizations at 7 CFR Section 226.16; (3) additional requirements for child care centers (whether independent or sponsored) at 7 CFR Section 226.17; (4) additional requirements for day care homes (which must be sponsored) at 7 CFR Section 226.18; (5) additional requirements for outside-school-hours centers at 7 CFR Section 226.19; (6) additional requirements for adult day care centers (whether independent or sponsored) at 7 CFR Section 226.19a; (7) additional requirements for at-risk afterschool programs at 7 CFR Section 226.17a; and (8) additional requirements for emergency shelters at 42 USC 1766(t).
 - b. For-profit child care and outside-school-hours care centers may participate in the CACFP if they meet either of the following two criteria: (1) at least 25% of the enrolled children or 25% of the licensed capacity, whichever is less, are funded under Title XX of the Social Security Act; or (2) at least 25% of the children in their care are eligible for free or reduced price meals. Children who participate only in the at-risk afterschool component of the program must not be considered in determining whether the institution met this 25% threshold (42 USC 1766(a)(2)(B); 7 CFR Section 226.11(c)(4)).
 - c. For-profit adult day care centers may be eligible for CACFP if at least 25% of their participants receive benefits under Title XIX or Title XX of the Social Security Act (7 CFR Section 226.2 (definition of "for-profit center)).
2. A pass-through entity (PTE) must clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR Section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions

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of the award (2 CFR Section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR Section 200.331(a)(3)).

3. Evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR Section 200.331(b)).
4. Non-Federal entities are prohibited from making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR Section 180.220. All nonprocurement transactions entered into by a pass-through entity (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR Section 180.215.

Condition Found

During our testwork over the subrecipient monitoring process utilized by the Vermont Agency of Education (the Agency), we reviewed the review and approval of applications, notification of federal funding awarded, and the documentation and completion of during the award monitoring procedures. As part of our testwork, we noted the following:

Application Reviews

- A. For 13 of 65 applications selected for testwork, representing 25 institutions and 40 individual sites, per review of the application we noted that the application was modified by a consultant within the Agency. It was unclear if the specific institution or site had authorized the modification of the application.
- B. For 8 of 25 institution applications selected for testwork, we noted that the authorized signature date on the application, which completes the submission of the application to the Agency and attests to suspension and debarment were prior to the current year grant award period. In all 8 instances the dates of the certification occurred in 2013 or 2014. As a result, it was unclear as to whether or not this was actually a current year certification for the year ending June 30, 2016.
- C. When an applicant applies to be in the program, the Agency must verify that the applicant is not on the National Disqualified List. For 16 of 25 applications selected for testwork, we were unable to obtain documentation to support that this requirement had been reviewed.

Award Identification

- D. During our testwork over award identification, we noted that for all 25 institution applications selected for testwork, the Agency did not identify the proper award information. For 31 of the 40 site applications selected for testwork, we noted that only the CFDA number was communicated to the site. For another 9 of 40 site applications that represented home day cares, no award information was communicated.

Risk Assessments

- E. For all 25 subrecipients selected for testwork, we noted the grant agreement was executed after the effective implementation date of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance) and the State of Vermont Agency of

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Administration Bulletin No. 5, Policy for Grant Issuance and Monitoring (Bulletin 5). Under the requirements of the Uniform Guidance, the Agency is required to evaluate each subrecipient's risk of noncompliance for the purposes of determining the appropriate subrecipient monitoring related to the subaward. In addition, Bulletin 5 requires that unless prohibited by statute or regulation, and prior to the issuance of a grant award, the Agency must determine if each potential grantee is eligible to receive an award and shall not issue an award to an ineligible organization (pre-award eligibility determination). For all 25 subrecipients, we noted the Agency did not complete either a pre-award eligibility determination in accordance with Bulletin 5 or a risk assessment as required by the Uniform Guidance.

The sample was not intended to be, and was not, a statistically valid sample

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is primarily due to insufficient procedures related to the entire monitoring process over subrecipients, including the review and approval of applications, notification of federal funding awarded, as well as the documentation and completion of during the award monitoring procedures. In addition, the Agency does not have policies and procedures in place to perform risk assessments for subrecipients of this program as the Agency indicated they did not believe it was required as the federal program is an entitlement program. In addition, insufficient notification to the subrecipient of the federal awards funded under its subrecipient grant agreement could result in the subrecipient being unaware that they are receiving federal funds.

Effect

The effect of the condition found is that the Agency may not perform the required follow-up actions and obtain all pertinent information from the subrecipient as part of the application process. In addition, instances of noncompliance identified through its monitoring process may not be communicated timely, and as a result, the Agency cannot follow up on its recommendations in a timely manner. In addition the types and frequency of monitoring procedures performed may not be adequate as the Agency has not performed a risk assessment over its subrecipients.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency review its existing monitoring procedures and develop controls to ensure that risk assessment procedures are performed timely over subrecipients. These procedures should ensure that subrecipient monitoring procedures performed are linked to the specific risks identified as part of the risk assessment process. We recommend that the Agency develop written procedures for reviewing program applications to ensure all applications are complete and accurate, and consistently reviewed by the Agency in order to verify that all eligibility requirements have been met to participate in the federal program. Written procedures should also be developed to ensure that prior to the execution of a grant

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agreement, that the agreement is reviewed and contains all the data as outlined in 2 CFR Section 200.331(a)(1). In addition, we recommend that the Agency review its existing programmatic monitoring procedures and develop controls to ensure that all procedures are performed timely and are properly documented. The written procedures should ensure that all required documentation is compiled and maintained to support each monitoring visit and whether or not matters identified during the review require corrective action. Further, a supervisory review should be conducted to ensure each file is complete prior to closure.

Views of Responsible Officials

The Agency of Education disagrees with the Award Identification and Risk Assessment portions of this finding.

Award Identification: CFDA numbers were on the Applications upon go-live of the Colyar system in April 2016.

Risk Assessments per Bulletin 5: Vermont Bulletin 5 requires the Agency of Education (AOE) to conduct both pre-Award Eligibility Determination and a Risk Assessment "prior to issuance of a grant award." The AOE considers the Child and Adult Care Food Program (CACFP) to be federal entitlement funds. Funds are distributed based on claims submitted using a formula of meal count x rate. Participants complete annual applications that are reviewed by AOE staff for acceptance into the program. Once accepted, eligible individuals have a legal right to participation in the program. There are no "grant awards" for these funds; therefore the requirements of Bulletin 5 section V.B. risk assessments are not triggered.

Therefore, the AOE believes it meets the intent of the pre-award eligibility determination using current procedures that place a financial hold on all subrecipients that are delinquent in their submission of single audit reports or the annual subrecipient report for the most current three years. The AOE will not process federal reimbursement funds to entities appearing on the suspension and debarment list.

Appendix I contains further comments and our corrective action plan to resolve the outstanding issues contained in the finding.

Rejoinder

The applications that were selected for testwork were for the year ending June 30, 2016 and were approved prior to the April 2016 date referred above in the views of responsible officials. The applications reviewed and referred to within the condition found above did not contain the required award information.

2 CFR section 200.331(b) of the Uniform Guidance requires a pass-through entity to evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward. The requirement applies to all subawards including federal entitlement funds. The Agency passes federal funding to eligible entities who meet the definition of a subrecipient as found 2 CFR section 200.93. The Agency did not have any documentation to support it had performed the required risk assessment as required by 2 CFR section 200.331(b).

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Finding 2016-020

U.S. Department of Labor

Program Name and CFDA Number

Unemployment Insurance (CFDA #17.225)

Program Award Number and Year

UI-26567-15-55-A-50	10/1/14–12/31/17
UI-25236-14-55-A-50	10/1/13–12/31/16
UI-23924-13-55-A-50	10/1/12–12/31/15
UI-22346-12-55-A-50	10/1/11–12/31/14

Criteria

Eligibility

Grantees are required to provide reasonable assurance that only eligible individuals receive assistance under federal programs, and that amounts provided to or on behalf of eligible individuals were calculated in accordance with program requirements.

Employer Experience Rating

Certain benefits accrue to states and employers when the State has a federally approved experience-rated Unemployment Insurance (UI) tax system. All states currently have an approved system. For the purpose of proper administration of the system, the State Workforce Agency (SWA) maintains accounts, or subsidiary ledgers, on state UI taxes received or due from individual employers, and the Unemployment Compensation (UC) benefits charged to the employer.

The employer's "experience" with the unemployment of former employees is the dominant factor in the SWA computation of the employer's annual state UI tax rate. The computation of the employer's annual tax rate is based on state UI law (26 USC 3303).

Match with IRS 940 FUTA Tax Form

States are required to annually certify for each taxpayer the total amount of contributions required to be paid under the State law for the calendar year and the amounts and dates of such payments in order for the taxpayer to be allowed the credit against the FUTA tax (26 CFR section 31.3302(a)-3(a)). In order to accomplish this certification, States annually perform a match of employer tax payments with credit claimed for these payments on the employer's IRS 940 FUTA tax form.

Condition Found

The Vermont Department of Labor (the Department) utilizes two primary computer systems – VABS and CATS – to process activity related to the program.

- VABS (Voice Activated Benefit System) is the Department's benefit management system responsible for determining claimant eligibility and processing benefit payments for unemployment insurance compensation.

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- CATS (Contribution Tax System) is the Department's employer tax system responsible for tracking employer information including gross wages reported, taxes paid, taxes due, and the employer experience rating. The system interfaces with VABS to import claim payment charges against the related employers and using this information from VABS and the quarterly gross wages data, the employer experience rating is automatically calculated.

During the year ending June 30, 2012, a test of design related to the IT general control environment of the above systems was performed. As part of this review, a number of control deficiencies were identified related to access to programs and data, change management, and computer operations. As a result of the control deficiencies, a test of operating effectiveness of IT general controls or application controls specific to the UI program could not be performed. During the period ending June 30, 2016, the Department has continued to take action on some of those deficiencies; however, several of the control deficiencies identified during the review for the year ending June 30, 2012 had not been corrected. As a result, we are unable to test the application controls specific to the UI program contained within the above noted systems and we are unable to conclude that there are adequate controls in place surrounding the IT systems utilized related to the allocation of costs, the determination of eligibility, the calculation of unemployment benefits, or the calculation of the employer experience rates. As such, we were unable to rely on IT controls.

The sample was not intended to be, and was not, a statistically valid sample.

A similar finding was noted as part of the June 30, 2015 audit and was reported as finding 2015-016.

Cause

The cause of the condition found is that the Department has not fully implemented policies and procedures that will mitigate the control deficiencies previously identified as part of the audit and has not taken steps to ensure that for those policies that have been implemented, such as the change management policy, that the existing change management procedures performed align with the implemented policy.

Effect

The effect of the condition found is that errors in the eligibility and employer tax experience processes may not be identified by the Department and could result in claimants improperly being determined as eligible, inaccurate benefit amounts being paid or an employer's experience rate being inaccurately calculated.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

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Recommendation

We recommend that the Department review the internal control deficiencies related to the key systems identified during the period ending June 30, 2012 and take appropriate actions to ensure that all deficiencies related to access to programs and data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the systems. In addition, the Department should review the application controls in the VABS and CATS systems that are instrumental to helping the Department maintain compliance and ensure that the controls are functioning properly.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-021

U.S. Department of Labor

Program Name and CFDA Number

Unemployment Insurance (CFDA #17.225)

Program Award Number and Award Year

UI-26567-15-55-A-50	10/1/14–12/31/17
UI-25236-14-55-A-50	10/1/13–12/31/16
UI-23924-13-55-A-50	10/1/12–12/31/15
UI-22346-12-55-A-50	10/1/11–12/31/14

Criteria

Eligibility for Individuals

Regular Unemployment Compensation Program – Under State Unemployment Compensation (UC) laws, a worker’s benefit rights depend on the amount of the worker’s wages and/or weeks of work in covered employment in a “base period”. While most states define the base period as the first 4 of the last 5 completed calendar quarters prior to the filing of the claim, other base periods may be used. To qualify for benefits, a claimant must have earned a certain amount of wages, or have worked a certain number of weeks or calendar quarters within the base period, or meet some combination of wage and employment requirements. Some states require a waiting period of one week of total or partial unemployment before UC is payable. A “waiting period” is a noncompensable period of unemployment in which the worker was otherwise eligible for benefits.

To be eligible to receive UC, all states provide that a claimant must have been involuntarily separated from suitable work, i.e., not because of such acts as leaving voluntarily without good cause, or discharge for misconduct connected with work. After separation, he or she must be able and available for work, in the labor force, legally authorized to work in the U.S., and not have refused an offer of suitable work (20 CFR Section 603.2). Pub. L. No. 112-96 requires work search as a condition of eligibility after the end of the first session of a State’s legislature which begins after February 22, 2012.

Condition Found

The Vermont Department of Labor (the Department) is responsible for determining whether claimants meet eligibility requirements outlined in State law to receive unemployment compensation benefits. One of the eligibility requirements is that an in-state claimant must register online on the Job-Link Website, or an out-of-state claimant must register at the nearest resource center and send the Vermont Department of Labor proof of their registration.

During our testwork over eligibility, we selected 42 claimants, 36 of which were in-state claimants and were required to register for work online at the VDOL’s Job-Link website, and 6 were out-of-state claimants who were required to register at their nearest resource center and send the Vermont Department of Labor proof of their registration. We noted that for 1 of the 6 out-of-state claimants selected, the Department had no evidence to show that the claimant had registered for work since they did not send the Vermont Department of Labor proof of their registration. Without proof of registration, the claimant’s benefits should

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have been suspended until the eligibility requirement was met, however, the Department failed to identify the non-compliance. In fiscal 2016 the claimant received \$11,596 in benefit payments.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is a lack of review over monitoring out of state respondents in the Vermont Job Link workforce development system.

Effect

The effect of the condition found is it could result in the Department not identifying overpayments of unemployment benefits to ineligible claimants.

The condition found appears to be systemic and is considered to be a significant deficiency in control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its procedures related to Job-link enrollment monitoring and data entry by regional staff and put into place review controls to ensure enrollment is properly and timely documented and communicated to the UI Division.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-022

U.S. Department of Transportation

Program Name and CFDA Number

Airport Improvement Program (CFDA #20.106)

Program Award Number

3-50-0015-043-2014

3-50-0015-013-2013

Criteria

Grants can be made for planning, constructing, improving, or repairing a public-use airport or portions thereof and for acquiring safety or security equipment. Eligible terminal building development is limited to nonrevenue-producing public-use areas that are directly related to the movement of passengers and baggage in air carrier and commuter service terminal facilities within the boundaries of the airport. Eligible construction is limited to items of work and to the quantities listed in the grant description and/or special conditions (49 USC 47110).

Condition Found

The Vermont Agency of Transportation (the Agency) enters into third party contracts to complete construction, improvement and repair projects at its public-use airports. As work is completed by the contractor, a request for reimbursement is submitted to the Agency to reimburse the contractor for the percentage of work completed to date. During our testwork over the allowability of costs paid using federal funds, we noted the following:

- A. For 2 of 50 payments selected for testwork, the amount paid to the contractor did not consistently agree to the documentation provided to support the payment. The contractor provides both a signed certification of completion and costs incurred to date along with supplemental schedules supporting the costs incurred. In both instances the amount paid by the Agency agreed to the contractor's signed certification, however the amount contained within the signed certification did not agree to the supplemental schedules provided to support of the request for reimbursement. One of these payments identified resulted in an underpayment being made to the vendor in the amount of \$20,030.
- B. For an additional 2 of 50 payments selected for testwork, we noted that payments were billed to the State from the contractor using the same invoice, as the invoice contained a billing for multiple projects. The invoice appeared to have been reviewed and approved, however the date of the approval was not documented and as such we were unable to determine if it had been reviewed and approved prior to payment.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

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Cause

The cause of the condition found is primarily due to inconsistent adherence to formal policies and procedures requiring the review and approval of costs made to vendors prior to payment to ensure that the documentation adequately supports the costs incurred.

Effect

The effect of the condition found is that Agency may have inaccurately reimbursed contractors for costs incurred.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None – the error noted in Bullet A above resulted in an underpayment.

Recommendation

We recommend that the Agency review its existing policies and procedures surrounding the review and approval of contractor invoices to ensure that the review of invoices is consistently documented and that the documentation submitted by the contractor properly supports the amount requested for reimbursement. This would include ensuring that the requested amount agrees to all supplemental schedules provided to support the request for reimbursement, and if it doesn't that the reason why is properly documented.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-023

U.S. Department of Transportation

Program Name and CFDA Number

Airport Improvement Program (CFDA #20.106)

Program Award Number

3-50-0012-013-2013

2-50-0013-014-2014

3-50-0013-015-2014

3-50-0013-016-2015

3-50-0015-043-2014

3-50-0015-042-2013

Criteria

All laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (DOL) (40 USC 3141-3144, 3146, and 3147).

Nonfederal entities shall include in their construction contracts subject to the Wage Rate Requirements (which still may be referenced as the Davis-Bacon Act) a provision that the contractor or subcontractor comply with those requirements and the DOL regulations (29 CFR part 5, Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR Sections 5.5 and 5.6; the A-102 Common Rule (§____.36(i)(5)); OMB Circular A-110 (2 CFR part 215, Appendix A, Contract Provisions); 2 CFR part 176, subpart C; and 2 CFR Section 200.326).

Condition Found

The Vermont Agency of Transportation (the Agency) enters into retainer contracts with third parties (or consulting firms) to perform oversight activities related to construction, improvement, and repair projects at its public-use airports. As part of the agreement, the consulting firm is required to monitor compliance with the Davis-Bacon Act by reviewing and monitoring certified payroll reports submitted by contractors to ensure that the required prevailing wage rates have been paid. During our testwork of the review and approval of certified payroll reports for construction projects related to airport improvement projects, we noted the following:

- A. For 13 of 25 certified payroll reports selected for testwork, the consulting firm responsible for the review and approval of the certified payroll report did not perform any payroll reviews or related interviews in order to verify that the wages contained within the certified payroll reports paid by the contractor were appropriate.

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- B. For 10 of 25 certified payroll reports selected for testwork, the consulting firm responsible for the review and approval of the certified payroll report had typed a date and a set of initials on the certified payroll reports, but it was unclear as to what the initials represented and if the certified payroll reports had been reviewed. In addition, there was no documentation to support that an additional 2 of 25 certified payroll reports had been reviewed by the consulting firm.
- C. For 1 of the consulting firms noted in Bullet B above, we noted that the contract between the Agency and the consulting firm did not appear to contain the required prevailing wage rate clause, nor did it contain a requirement for the consulting firm to review compliance with the provisions of the Davis-Bacon Act.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is primarily due to a lack of procedures in place for the Agency to monitor the consulting firms it engages to ensure that it routinely performs the required Davis-Bacon compliance monitoring that is outlined within its consulting agreements.

Effect

The effect of the condition found is that Agency may have reimbursed contractors for wages paid that were not in accordance with the provisions of the Davis-Bacon Act.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Agency review its existing policies and procedures surrounding the review and monitoring of its contractors' compliance with the provisions of the Davis-Bacon Act. These procedures should include the timely review of certified payroll reports to ensure that the wages paid are appropriate and that the review of the reports is properly documented. If the Agency continues to outsource the monitoring of this requirement to a third party, the Agency should implement procedures to ensure that the requirement is being adequately performed by the third party and any matters of noncompliance identified by the third party are followed up on timely.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-024

U.S. Department of Transportation

Program Name and CFDA Number

National Infrastructure Investments (CFDA #20.933)

Program Award Number and Year

FR-TII-0016-13-01-01 06/21/2013-12/31/2016

Criteria

States, and governmental subrecipients of States, will use the same State policies and procedures used for procurements from non-Federal funds. They also must ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

States are required to use the same state policies and procedures used for procurements for nonfederal funds. As such this program is subject to the State of Vermont Agency of Administration Bulletin No. 3.5 (Bulletin 3.5) for contracting procedures.

Condition Found

During our testwork over procurement at the Vermont Agency of Transportation (the Agency), we noted that for 1 of 2 contracts selected for testwork the Agency did not comply with the provisions of Bulletin 3.5. Specifically we noted the Agency did not obtain a sole source procurement approval from the Agency of Administration prior to executing the contract and did not complete the required AA-14 form, which documents that the contract had been reviewed and approved as outlined within Bulletin 3.5.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is that the Agency had identified the contractor as a required partner within its federal grant application. As the Agency of Administration had approved the request for funding and the contractor was named within the federal grant award, the Agency did not believe that further approval was required.

Effect

The effect of the condition found is that Agency did not comply with the provisions of Bulletin 3.5.

While the condition found appears to be an isolated incident, given the nature of the federal award, this is considered to be a material weakness in internal control.

Questioned Costs

None.

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Recommendation

We recommend that the Agency review its existing policies and procedures related to procurement to ensure that the Agency consistently follows the provisions required of Bulletin 3.5.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-025

U.S. Department of Education

Program Name and CFDA Number

Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA #84.126)

Program Award Number and Years

H126A160067	10/1/2015-9/30/16
H126A160068	10/1/2015-9/30/16
H126A150067	10/1/2014-9/30/15
H126A150068	10/1/2014-9/30/15

Criteria

2 CFR Section 200.303 indicates that the internal controls required to be established by a nonfederal entity receiving federal awards should be in compliance with guidance in “Standards for Internal Control in the Federal Government,” issued by the Comptroller General of the United States (Green Book) or the “Internal Control Integrated Framework” (revised in 2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This would include establishing procedures to assess the quality of eligibility determination processes.

Condition Found

During our testwork over the eligibility process, we noted that in January of 2016, the Department of Disabilities, Aging and Independent Living (Department) implemented a quality control review process whereby a sample of 5 eligibility determinations performed during the quarter for each counselor are reviewed on a quarterly basis to ensure that the eligibility determination performed was complete and in accordance with federal regulations. An internal form is completed that documents the required procedures to be performed as part of the review as well as the findings and conclusions of the reviewer. We noted that for 33 of 40 reviews selected, the form utilized to document the review was not consistently completed and the conclusions reached by the reviewer were not sufficiently documented.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is primarily due to the fact that that the quality control review process had just been implemented by the Department and the form created to document the review was in the developmental stages so that various sections of the form would automatically populate based upon data entered by the reviewer. In some cases, the Department had instructed reviewers not to populate certain areas of the form.

Effect

The effect of the condition found is that there were insufficient controls in place throughout the year to monitor and review the accuracy of eligibility determinations performed.

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The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its existing quality control procedures to ensure that the forms and other tools utilized as part of this process are finalized and individuals performing the reviews are adequately trained to ensure that the review results are sufficiently documented.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-026

U.S. Department of Education

Program Name and CFDA Number

Race to the Top – Early Learning Challenge (CFDA #84.412)

Program Award Number and Year

S412A130038 1/1/2014 – 12/31/2017

Criteria

Costs must meet certain general criteria, or basic guidelines, in order to be allowable under federal awards, including being adequately documented in accordance with 2 CFR part 200, subpart E. In addition to being adequately documented, 2 CFR Section 200.62 requires a system of internal control to be in place to ensure that transactions are properly accounted for and executed in compliance with federal regulations and that funds are properly safeguarded against loss from unauthorized use or disposition. A system of internal control is expected to provide reasonable assurance that that these objectives will be achieved.

Condition Found

During our testwork over the allowability of costs paid, we noted the following:

Department for Children and Families

Of the 65 invoices selected for testwork, 32 invoices were processed and paid by the Department for Children and Families. Per review of these 32 invoices, we noted the following:

- A. For 1 of 32 invoices, the invoice appeared to be properly reviewed and approved, however, the approval was not dated and as such we were unable to determine if the invoice was approved prior to payment.
- B. For 1 of 32 invoices, the invoice provided did not have any documentation to support the services and/or expenditures that were being paid for. Subsequent to our testwork performed, the Department requested that the contractor submit additional information to support that the amount paid was allowable.
- C. For 16 of the 32 invoices, we noted the invoice paid did not contain sufficient information to document the types of services rendered or the types of costs that were billed. Per discussion with the Department for Children and Families and review of the corresponding agreement with the vendor (i.e. grant or contract) associated with each of the 16 invoices, the vendor was required to meet certain deliverables as outlined within the written agreement in order to receive reimbursement for services rendered and to provide a progress report to certify that they had met or were working towards meeting the requirements outlined within the written agreement. Per review of the progress reports provided by the Department for Children and Families that corresponded to the service period outlined within the invoice selected for testwork, we noted we were unable to verify that the Department for Children and Families had reviewed the progress reports to ensure that the vendor was meeting or had met their deliverables to ensure that the payment made was appropriate.

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Vermont Department of Health

- D. Of the 65 invoices selected for testwork, 8 invoices were processed and paid by the Vermont Department of Health. We noted that for 3 of the 8 invoices, the invoice paid appeared to have been submitted in accordance with the payment provisions outlined within the third party agreement, but the invoice itself did not contain sufficient information to document the types of services rendered or the types of costs that were billed for. The Department of Health was unable to provide any other information to support the allowability of the costs incurred.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is primarily due to insufficient controls and procedures to ensure that invoices are properly reviewed and approved prior to payment and that sufficient documentation is obtained from the vendor to support the costs incurred.

Effect

The effect of the condition found is that costs could have been paid that are not allowable under federal regulations.

The condition found appears to be systemic and is considered to be a material weakness in internal controls.

Questioned Costs

Not determinable.

Recommendation

We recommend that management within the Department for Children and Families and the Department of Health review their existing procedures for reviewing and approving invoices for payment and implement internal controls to ensure that all invoices are properly reviewed and approved prior to payment. The approval process should include documentation of the review of supporting information to ensure that the services rendered are consistent with the services outlined within its existing grant or contract with the vendor.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-027

U.S. Department of Education

Program Name and CFDA Number

Race to the Top – Early Learning Challenge (CFDA #84.412)

Program Award Number and Year

S412A130038 1/1/2014 – 12/31/2017

Criteria

A pass-through entity is responsible for:

- At the time of the subaward, identifying to the subrecipient the federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.
- *During-the-Award Monitoring* – Monitoring the subrecipient’s use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition Found

During our testwork over subrecipient monitoring, we noted the following:

Department for Children and Families

Of the 8 grants selected for testwork, 5 of the subawards (grants) were entered into by the Department for Children and Families. During our testwork over these 5 grants, we noted the following:

- A. For 4 of 5 grants, we noted the Department for Children and Families obtained programmatic reports from each of the grantees, however there was no evidence to support that the programmatic reports had been reviewed.
- B. For 4 of 5 grants, we were unable to obtain evidence to support that any programmatic or fiscal monitoring procedures had been performed over the grantee. For 1 of 5 grants selected, we did note that the Agency of Human Services Central Office had performed a limited desk review over the grant; the Department for Children and Families however did not appear to have performed any of their own monitoring procedures over this grant.
- C. For 1 of 5 grants, we noted the subgrant award did not communicate all of the required award identification information.
- D. For 1 of 5 grants, per review of the subrecipient’s single audit report the Schedule of Expenditures of Federal Awards contained the CFDA number for this program twice, however the program name associated with the CFDA number is inaccurate. There was no evidence that the error was identified as part of the review of the subrecipient’s single audit report.

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Agency of Education

Of the 8 grants selected for testwork, 3 of the grants were entered into by the Agency of Education. During our testwork related to these 3 grants, there did not appear to have been any programmatic or fiscal monitoring reviews performed over these grants.

We further noted that when a subrecipient submits a claim for reimbursement, a standard invoice is submitted to the Agency. The standard invoice does not contain any specific information as to the types of costs that the subrecipient is requesting reimbursement for. To ensure that the costs paid to the subrecipient are allowable, the Agency relies on the procedures it performs during its programmatic and fiscal monitoring reviews. As no programmatic or fiscal monitoring procedures were performed by the Agency, the Agency did not properly monitor that the costs paid to each of these 3 grants were allowable.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is primarily due to a lack of sufficient subrecipient monitoring procedures to ensure that subrecipients are properly monitored and to ensure that all monitoring procedures that are performed are properly documented. In addition there appeared to be insufficient review procedures in place to ensure that subrecipient grant agreements contained all of the required data elements.

Effect

The effect of the condition found is that the subrecipient grants may not have been sufficiently monitored given the risk associated with the grantee. In addition, grant agreements were entered into that did not contain all the required data elements.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend the Department for Children and Families and the Agency of Education review their existing policies and procedures to ensure subrecipient monitoring procedures in place are documented and outline the types of programmatic and fiscal monitoring to be performed. These procedures should also ensure that the results of monitoring activities are properly documented. In addition, review controls should be implemented to ensure that all subrecipient grant agreements are complete and accurate before being entered into with the grantee.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-028

U.S. Department of Health and Human Services

Program Name and CFDA Number

TANF Cluster

Temporary Assistance for Needy Families (CFDA #93.558)

Program Award Number and Year

1502VTTANF	10/1/14–9/30/15
1602VTTANF	10/1/15–9/30/16

Criteria

Funds may be used in any manner reasonably calculated to accomplish the purposes of the program, including providing low-income households with assistance in meeting home heating and cooling costs (42 USC 604(a)(1) and 45 CFR Section 263.11(a)(1)). As specified in 42 USC 601 and 45 CFR Section 260.20, the TANF program has the following purposes:

1. Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
2. End dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
3. Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
4. Encourage the formation and maintenance of two-parent families.

Costs must meet certain general criteria, or basic guidelines, in order to be allowable under federal awards, including being adequately documented in accordance with 2 CFR part 200, subpart E.

Condition Found

During our testwork over the accuracy of benefit payments paid on behalf of eligible participants, we noted the following:

- A. For 1 of 40 participants selected for testwork, we noted the participant had received a benefit sanction that resulted in the participant's benefits being reduced from the maximum amount. For the month selected for testwork, the maximum monthly benefit had been incorrectly paid, resulting in an overpayment of \$360.

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- B. The Department for Children and Families (the Department) has entered into a third party contract whereby residential services, including room and board, are provided to pregnant and parenting young women who have been determined to be eligible by the Department. On a monthly basis, the contractor submits an invoice to the Department for services that are rendered. The Department will then reimburse the contractor through its normal vendor payment process instead of paying the participant a monthly subsidy payment directly. While these participants are eligible to receive a monthly TANF subsidy as calculated by the ACCESS system, or the Department's eligibility system, the participant does not receive a TANF benefit directly from the Department. Of the 40 participants selected for testwork, 2 had been determined eligible for this residential service program. Per review of payments for these 2 participants we noted the following:
1. One participant moved into the residential facility and was subsequently sanctioned by the Department due to noncompliance with program requirements and the participant's case was closed. The participant's case was subsequently reopened. After the case was reopened, the Department inadvertently issued a benefit payment directly to the participant as well as issued a payment on behalf of the participant to the third party contractor for the same period, resulting in an overpayment of \$1,469.
 2. One participant left the residential facility, however for the month selected for testwork the Department incorrectly issued both a direct benefit payment to the participant and a payment to the third party contractor, resulting in an overpayment of \$977. Per review of the case file, we noted a total overpayment of \$2,125 was made on behalf of this participant.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is that the Department does not appear to have appropriate controls in place to properly monitor the accuracy of benefit payments issued on behalf of participants that are eligible for residential services or for participants that are currently under sanction to ensure that required changes to the participant's benefit payment are applied timely.

Effect

The effect of the condition found is that inaccurate benefit payments have been made on behalf of eligible participants resulting in unallowable costs.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

\$3,954

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Recommendation

We recommend that the Department implement procedures to ensure it has appropriate review controls over benefit payments made on behalf of participants receiving residential services or who have been sanctioned in order to ensure that the participant's monthly benefit payment is accurate.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-029

U.S. Department of Health and Human Services

Program Name and CFDA Number

TANF Cluster

Temporary Assistance for Needy Families (CFDA #93.558)

Program Award Number and Year

1502VTTANF	10/1/14–9/30/15
1602VTTANF	10/1/15–9/30/16

Criteria

State agency must reduce or terminate the assistance payable to the family if an individual in a family receiving assistance refuses to work, subject to any good cause or other exemptions established by the State. Health and Human Services (HHS) may penalize the State by an amount not less than one percent and not more than five percent of the SFAG for violation of this provision (42 USC 609(a)(14); 45 CFR Sections 261.14, 261.16, and 261.54).

Condition Found

Participants who refuse to work may be sanctioned by the Department for Children and Families (the Department). The sanction is maintained within the participant's case file along with documentation to support the appropriateness of the sanction. A sanction authorization form, called the ESD 606 Form must be completed by the participant's case manager and approved by the case manager's supervisor or appropriate designee. During our testwork over penalties for refusal to work process, we noted the following:

- A. For 1 of 40 participant sanctions selected for testwork, the sanction authorization form was not completed.
- B. For 1 of 40 participant sanctions selected for testwork, the sanction authorization form was completed, but not signed by the case manager's supervisor or appropriate designee.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is due to insufficient controls within the Department that allowed a participant's benefits to be sanctioned without the completed or approved sanction authorization form.

Effect

The effect of the condition found is that improper or incorrect sanctions could be processed causing a participant's benefit payment to be incorrectly reduced.

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The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its procedures and implement sufficient controls to ensure that all required documentation is completed and approved prior to benefits being sanctioned. We further recommend that supporting documentation be maintained for all participant sanctions.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-030

U.S. Department of Health and Human Services

Program Name and CFDA Number

Low-Income Home Energy Assistance (CFDA #93.568)

Program Award Number and Year

G-16B1VTLIEA	10/1/15-9/30/16
G-15B1VTLIEA	10/1/14-9/30/15

Criteria

Low Income Home Energy Assistance Program (LIHEAP) funds may be used to assist eligible households to meet the costs of home energy, i.e., heating or cooling their residences (42 USC 8621(a) and 8624(b)(1)).

Condition Found

As part of the benefit payment process related to fuel assistance, the State of Vermont Economic Services Division (ESD) of the Department for Children and Families (the Department) will issue payments directly to fuel vendors for the purchase of fuel (i.e. oil, propane) on behalf of eligible participants. The amount of the fuel benefit that the participant was determined eligible for is sent directly to the fuel vendor. At the end of the fuel season, ESD provides each fuel vendor with a report that shows each participant and the amount of benefits paid on the participant's behalf. The fuel dealer will then write on the report the dollar value of the fuel delivered. If the fuel vendor did not provide fuel at an amount equal to the benefit payment received, a refund is requested from the fuel vendor.

During our review over the fuel payment process, we noted that for the year ending June 30, 2016, ESD did not perform any procedures to ensure that the information provided by the fuel vendor was accurate. ESD has a process in place to perform fuel vendor audits, where information provided by the fuel vendor is audited on a sample basis by ESD. However, during our testwork we noted that there were no fuel vendor audits performed during the year ended June 30, 2016.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found primarily relates to employee turnover during the year, which resulted in the fuel vendor audits not being performed.

Effect

The effect of the condition found is that excess fuel payments could be charged to the federal program and ESD would not be able to identify the error in a timely manner.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

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Questioned Costs

Not determinable.

Recommendation

We recommend that ESD review its internal policies and procedures and verify that these policies and procedures are sufficiently documented to enable the continuity of its internal control procedures as staff turnover occurs.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-031

U.S. Department of Health and Human Services

Program Name and CFDA Number

Low-Income Home Energy Assistance (CFDA #93.568)

Program Award Number and Year

G-16B1VTLIEA	10/1/15-9/30/16
G-15B1VTLIEA	10/1/14-9/30/15

Criteria

Low Income Home Energy Assistance Program (LIHEAP) funds may be used to assist eligible households to meet the costs of home energy, i.e., heating or cooling their residences (42 USC 8621(a) and 8624(b)(1)).

Grantees may provide assistance to (a) households in which one or more individuals are receiving Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), Supplemental Nutrition Assistance Program (SNAP) benefits, or certain needs-tested veterans benefits; or (b) households with incomes which do not exceed the greater of 150 percent of the State's established poverty level, or 60 percent of the State median income. Grantees may establish lower income eligibility criteria, but no household may be excluded solely on the basis of income if the household income is less than 110 percent of the State's poverty level. Grantees may give priority to those households with the highest home energy costs or needs in relation to income (42 USC 8624(b)(2)).

Condition Found

During our testwork over fuel benefits paid under LIHEAP, we noted the following:

- A. 5 of 40 participants selected for testwork utilize wood as their home heating source. As part of the fuel benefit payment process individuals who utilize wood or wood pellets as their home heating source receive their benefit in the form of a check, or it is applied to their EBT card. The benefit is applied as a cash benefit. Once applied to the EBT card, there are no restrictions placed on these funds as to what the funds can be used to purchase. While the Department for Children and Families (the Department) notifies each of these participants that they are required to maintain receipts to support that the cash benefit received was used to purchase wood or wood pellets, the Department currently does not have any formal monitoring procedures in place to ensure that the benefits paid are used for allowable purposes. The total amount of fuel assistance paid for related to wood and wood pellets during the period ending June 30, 2016 was \$912,864.
- B. 3 of 40 participants selected for testwork received a \$21 benefit payment under the State of Vermont Heat and Eat program. The Federal Farm Bill (the Bill) established that if there was a minimum Fuel Assistance benefit of \$21 received by a participant, the participant would be eligible to receive a full utility allowance deduction as part of their benefit calculation under the Supplemental Nutritional Assistance Program (SNAP) effectively increasing the participants monthly SNAP benefit allotment. While these individuals would have met the monetary eligibility requirement for the LIHEAP program and also received SNAP benefits, there was no documentation in the file, such as a landlord

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certification indicating a portion of their rent (if any was paid) was used to support a heating or cooling liability. As there was no documentation to support that these participants have a heating or cooling liability, we are unable to conclude that these payments are allowable. Further 6 other participants selected received a \$21 dollar benefit issued either by check or by EBT card. These participants did not have direct heat expenses, but the heat is assumed to be included in their rent. As the payments were made via EBT or check, we are unable to conclude that the payments were made for allowable expenditures. Approximately \$469,360 in fuel assistance benefits were paid during the period ending June 30, 2016 to participants that met the monetary eligibility requirement for LIHEAP and were recipients of benefits under SNAP.

In addition to the above, during our testwork we noted if the Department first enters a participant into the ACCESS system, the State of Vermont benefit eligibility determination system, to determine if the participant is eligible for benefits under the SNAP program, and the participant has not received a LIHEAP benefit in the last 12 months, an automatic \$21 dollar payment will be issued either by EBT or check to the participant, regardless of whether or not the participant is eligible for LIHEAP. While we did not find an instance in our sample selected for testwork, a participant could potentially not apply for LIHEAP benefits, not have a heating liability, and be issued a \$21 dollar benefit.

- C. 1 of 40 participants tested had a household income greater than 150% of the State's poverty level. While this participant would have met the eligibility requirements for State fuel assistance, federal eligibility requirements prohibit assistance to households with income greater than 150% of the state's poverty level. As payments made to participants for both the LIHEAP and State fuel programs are comingled in the same expenditure account, there is no way to determine whether State or federal funds were used to pay for these benefits.

The sample was not intended to be, and was not, a statistically valid sample.

A similar finding was noted as part of the June 30, 2015 audit and was reported as finding 2015-033.

Cause

The cause of the condition found related to benefits paid for wood and wood pellet as outlined in Bullet A is that the Department does not have a current process in place to monitor cash benefits paid to ensure that the benefits were used to purchase wood or wood pellets. The cause of the condition found outlined in Bullets B and C above is that the Department does not maintain sufficient documentation to support that benefits paid to participants that do not meet the eligibility requirements related to income standards and heating or cooling liabilities were not paid for with federal funds.

Effect

The effect of the condition found is that federal funds may be spent on unallowable activities or on behalf of ineligible participants.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

Not determinable.

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Recommendation

We recommend that the Department review its existing procedures and implement controls to ensure that federal funds are used only for benefit payments that are allowable and that federal funds are only used to provide benefits to participants that meet federal eligibility requirements. The Department should also review its existing monitoring procedures related to cash benefit payment to EBT cards to ensure there are sufficient monitoring procedures are in place to verify that participants have used the funds for allowable purposes.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-032

U.S. Department of Health and Human Services

Program Name and CFDA Number

Low-Income Home Energy Assistance (CFDA #93.568)

Program Award Number and Year

G-16B1VTLIEA	10/1/15-9/30/16
G-15B1VTLIEA	10/1/14-9/30/15

Criteria

Annual Report on Households Assisted by LIHEAP – As part of the application for block grant funds each year, a report is required for the preceding fiscal year of (1) the number and income levels of the households assisted for each component (heating, cooling, crisis, and weatherization), and (2) the number of households served that contained young children, elderly, or persons with disabilities. Territories with annual allotments of less than \$200,000 and Indian tribes are required to report only on the number of households served for each component (42 USC 8629; 45 CFR Section 96.82)

Condition Found

During our testwork over the Annual Report on Households that was submitted for the federal fiscal year ending September 30, 2015 we noted the following:

- A. The heating assistance information used to prepare the report is obtained from the SPSS database. Information is extracted directly from the ACCESS system, or the benefit eligibility maintenance system that is used for various programs, including the LIHEAP program. ACCESS is configured to calculate benefits from set Federal Poverty Level (FPL) ranges but the ranges in ACCESS are not the same ranges used on the Annual Report on Households. Within the ACCESS system, for FPL ranges that fall within two ranges listed on the form, the number of households from ACCESS is split evenly between the two. As such, the figure reported on the application does not represent an exact number of households.
- B. We were unable to agree certain line items reported within the Annual Report on Households to the supporting documentation provided by the Department. Specifically we noted the following:
 - 1. Part II, Line 1, the total households reported in Column D for households within the 126%-150% poverty level per the report was 4,952, compared to 4,230 shown on the support schedules from the SPSS database used to prepare the report.
 - 2. Part II, Line 3b, the total households reported in Column D for households within the 126%-150% poverty level per the report was 419, compared to 802 shown on the support schedules which are provided by the Department's subrecipients who administer crisis fuel assistance. In addition, we were unable to agree the information reported by 2 of the 5 subrecipients to schedules prepared by the Department. We noted a similar issue with Part III, Line 3b, which is compiled in the same manner and we were unable to agree the information reported by 1 of 5 subrecipients.

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3. Part III, Column D represents the unduplicated total number of households reported within Columns A, B, and C, as a household could be represented in more than one vulnerable population. For both line items 1 and 3b we were unable to obtain documentation to support the Department's calculation of the amounts reported within Column D.
4. Part IV, Line 1, we were unable to obtain documentation to support the total number of households reported within this section.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is primarily due to limitations that exist within the ACCESS system to extracted data needed to prepare the federal report as well as insufficient procedures to maintain documentation to support the amounts that were included within the federal report.

Effect

The effect of the condition found is that inaccurate information could be included on the Annual Report on Households Assisted by LIHEAP.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend the Department review its existing procedures for preparing the federal report to ensure that the data contained within the report is complete, accurate and is properly supported by sufficient documentation.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-033

U.S. Department of Health and Human Services

Program Name and CFDA Number

Low-Income Home Energy Assistance (CFDA #93.568)

Program Award Number and Year

G-16B1VTLIEA	10/1/15-9/30/16
G-15B1VTLIEA	10/1/14-9/30/15

Criteria

A pass-through entity is required to evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR Section 200.331(b)).

A pass-through entity is required to monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR Sections 200.331(d) through (f)).

Condition Found

During our testwork over subrecipient monitoring, we noted that the Department for Children and Families (the Department) does not appear to have a documented risk based subrecipient monitoring plan that is utilized to determine what types of monitoring procedures it will perform over its subrecipients based upon the Department's own independent review of the subrecipient's risk of noncompliance. For all 3 subrecipients selected for testwork, the Department performed an independent risk assessment subsequent to the date that the subrecipient grant was entered into. While this risk assessment was performed, it was unclear as to whether or not the results of the risk assessment performed was utilized in its overall monitoring process. Although we were unable to obtain any evidence that a risk based subrecipient monitoring plan does exist, we did note that the Department had performed financial and programmatic monitoring reviews over the 3 subrecipients selected for testwork (out of a population of 5 subrecipients) during the year ended June 30, 2016.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is primarily due to a lack of documentation maintained by the Department that outlines what its risk based monitoring plan is for its subrecipients and how its annual risk assessments performed support the types of monitoring procedures it performs over its subrecipients.

Effect

The effect of the condition found is that the Department may not have sufficient monitoring procedures in place to ensure it has adequately addressed the risks of noncompliance it has identified at the subrecipient level.

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The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend the Department review its existing policies and procedures to ensure that risk assessment procedures are performed timely over subrecipients. These procedures should ensure that the subrecipient monitoring procedures that will be performed are linked to the specific risks identified as part of the risk assessment process.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-034

U.S. Department of Health and Human Services

Program Name and CFDA Number

Foster Care – Title IV-E (CFDA #93.658)

Program Award Number and Year

1601VTFOST	10/1/2015-9/30/16
1501VTFOST	10/1/2014-9/30/15

Criteria

Foster care maintenance payments can be made only if all compliance requirements are met and the child is placed in a licensed foster home or child-care institution (45 CFR 1355.20(a), 45 CFR 1366.30(f) and 45 CFR 1356.71(d)(1)(iv).

Funds may be expended for Foster Care maintenance payments on behalf of eligible children, in accordance with the Agency's Foster Care maintenance payment rate schedule and in accordance with 45 CFR Section 1356.21, to individuals serving as foster family homes, to child-care institutions, or to public or private child-placement or child-care agencies.

Condition Found

Eligible providers receive a monthly subsidy maintenance payment based on the number of days an eligible child is in their care. The daily rate that the provider is reimbursed is based on the provider's training level. The provider is eligible for a higher daily reimbursement rate as more training is received. During our testwork over monthly subsidy maintenance payments, we noted the following:

- A. For 1 of 40 providers selected for testwork, the provider received a higher daily reimbursement rate as a result of additional training that was received, however there was no documentation maintained within the provider's file to substantiate that they had completed the required additional training. As a result, we were unable to conclude that the daily reimbursement rate for this provider was accurate.
- B. For 1 of 40 providers selected for testwork, the provider was an out of state residential treatment facility. Upon review of the contract and the approved AA-14 Contract Approval Form, the approved contract indicated that it would be 100% funded using Global Commitment funds, which is a combination of State of Vermont and Medicaid funding. Neither document indicated that the services rendered would be paid for using funding from the Foster Care program. In addition, we noted per review of the contract that the provider was providing both treatment and residential services, of which the cost associated with treatment services would be unallowable under the Foster Care program. As a result, it was unclear if the costs incurred under this contract should have been charged to the Foster Care program.

The sample was not intended to be, and was not, a statistically valid sample.

A similar finding was noted as part of the June 30, 2015 audit and was reported as finding 2015-037.

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Cause

The cause of the condition found for item A above is that the Vermont Department for Children and Families (the Department) did not maintain training records such as an attendance record or certificate of completion within the provider's file to support the training levels earned by the provider.

The cause of the condition found for item B above is that the Department does not have an adequate process in place to ensure that contracts being charged to the Foster Care program are appropriately funded with federal Foster Care funds and are not used to pay for costs which are unallowable under the Foster Care program.

Effect

The effect of the condition found is that the Department lacks sufficient documentation to substantiate that the provider is being paid the correct daily reimbursement rate.

The condition found appears to be systematic in nature and is considered to be a significant deficiency in internal control.

Question Costs

Not determinable.

Recommendation

We recommend that the Department review its existing controls and procedures to ensure that adequate documentation is maintained for all providers to validate the provider's training level to ensure that rates paid to providers above the base rate are accurate. We further recommend that the Department review its procedures for developing rates for contracts with residential care facilities to ensure that the rates utilized within the contracts separately identify the room and board component contained within the rate so that only those costs that are allowable are charged to the program.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-035

U.S. Department of Health and Human Services

Program Name and CFDA Number

Foster Care – Title IV-E (CFDA #93.658)

Program Award Number and Year

1601VTFOST	10/1/2015-9/30/16
1501VTFOST	10/1/2014-9/30/15

Criteria

Funds may be expended for Foster Care maintenance payments on behalf of eligible children, in accordance with the Agency's Foster Care maintenance payment rate schedule and in accordance with 45 CFR Section 1356.21, to individuals serving as foster family homes, to child-care institutions, or to public or private child-placement or child-care agencies.

Condition Found

As part of the State of Vermont's Foster Care program, Foster Care providers may also receive a child care subsidy payment in addition to their monthly foster care subsidy payments to help assist with the cost of child care. Child care subsidy payments are paid directly to child-care providers. During our testwork over child care subsidy maintenance payments, we noted that for 12 of 25 child care providers selected for testwork, the child care subsidy payment was made on behalf of a child who had been adopted and as such should not be receiving benefits under the Foster Care program. Upon further discussion with the Vermont Department for Children and Families (the Department), it was discovered that an error had taken place with their internal cost allocation plan. While child care subsidies paid on behalf of adopted children are tracked separately within the VISION system, the State of Vermont's centralized accounting system, an error within the cost allocation plan occurred and these costs were inadvertently allocated to the Foster Care program instead of the Adoption Assistance program. The error itself appears to date back to the State fiscal year ended June 30, 2005. The total amount of child care subsidies since this time that have been incorrectly charged to the Foster Care program totals \$7,422,965. Of this amount, \$870,071 was incorrectly charged during the year ending June 30, 2016.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is primarily due to the fact that the Department did not have adequate controls in place over the cost allocation process which allowed costs to be charged to the incorrect federal program.

Effect

The effect of the condition found is that federal reports were filed for the Foster Care program that included costs that should have been charged to the Adoption Assistance program.

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The condition found appears to be systematic in nature and is considered to be a material weakness in internal control.

Question Costs

\$870,071 – the amount identified above was paid during the year ended June 30, 2016.

Recommendation

We recommend that the Department review its controls and procedures over the cost allocation and federal reporting process to ensure that costs are allocated to the correct federal program.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-036

U.S. Department of Health and Human Services

Program Name and CFDA Number

Foster Care – Title IV-E (CFDA #93.658)

Program Award Number and Year

1601VTFOST	10/1/2015-9/30/16
1501VTFOST	10/1/2014-9/30/15

Criteria

Funds may be expended for Foster Care maintenance payments on behalf of eligible children, in accordance with the Title IV-E agency's Foster Care maintenance payment rate schedule and in accordance with 45 CFR section 1356.21, to individuals serving as foster family homes, to child-care institutions, or to public or private child-placement or child-care agencies. Such payments may include the cost of (and the cost of providing, including certain associated administrative and operating costs of an institution) food, clothing, shelter, daily supervision, school supplies, personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation, as well as reasonable travel for the child to remain in the same school he or she was attending prior to placement in foster care (42 USC 672(b)(1) and (2), (c)(2), and 675(4)).

Condition Found

The Vermont Department for Children and Families (the Department) utilizes an information technology (IT) system called SSMIS that maintains information related to children receiving assistance under the Foster Care program including the child's placement information, daily foster care subsidy rate to be paid, the history of payments made on behalf of the child and the funding source the payment is to be charged to (i.e. the if the payment is federally funded under the Foster Care program or through the State of Vermont general fund)

During our testwork over the eligibility process, we noted that for 2 of 40 children selected for testwork, a benefit was paid and charged to the Foster Care program on behalf of a child who was not eligible to receive a Foster Care benefit as it had been greater than 12 months since the last determination of reasonable efforts to finalize a permanency plan. Due to an error within the Department's SSMIS system, instead of the benefit being charged to the State of Vermont general fund, the benefit paid was allocated and charged to the Foster Care program. The error was subsequently identified by the Department, and the Department determined that the Department had overdrawn approximately \$162,000 in federal funds due to the error. While the error was identified in September of 2015, as of June 30, 2016, the federal funds that were overdrawn had not yet been returned to the federal government.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

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The cause of the condition found was a result of a system change to the SSMIS in June of 2015 that inadvertently caused certain cases that should have been charged to the State of Vermont General Fund to be charged to the Foster Care program. Although the Department had identified this error, they had not yet returned the overpayment as of June 30, 2016 as the Department does not have proper controls in place to ensure that overdrawn expenditures are returned timely to the federal government.

Effect

The effect of the condition found is that the Department drewdown funds for costs that were not eligible for reimbursement and has not refunded the excess funds to the federal government in a timely manner.

The condition found appears to be systematic in nature and is considered to be a material weakness in internal control.

Questioned Costs

\$162,000

Recommendation

We recommend that the Department review its existing cash management policy and ensure that all amounts that have been inadvertently overdrawn are refunded timely to the federal government in accordance with the State's cash management agreement.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Year ended June 30, 2016

Finding 2016-037

U.S. Department of Health and Human Services

Program Name and CFDA Number

Adoption Assistance (CFDA #93.659)

Program Award Number and Year

1501VTADPT	10/1/14-9/30/15
1601VADPT	10/1/15-9/30/16

Criteria

Funds may be expended for adoption assistance subsidy payments made on behalf of eligible children, in accordance with a written and binding adoption assistance agreement. Subsidy payments are made to adoptive parents based on the need(s) of the child (i.e., developmental, cognitive, emotional behavioral) and the circumstances of the adopting parents (42 USC 673(a)(2)).

Subsidy payment amounts cannot be based on any income eligibility requirements of the prospective adoptive parents (45CFR Section 1356.41(c)). Adoption assistance subsidy payments cannot exceed the foster care maintenance payment (in accordance with the Title IV-E agency's rate schedule) the child would have received in a foster family home; however, the amount of the subsidy payments may be up to 100 percent of that foster care maintenance payment rate (42 USC 673(a)(3)).

Condition Found

During our testwork over the monthly subsidy payments paid within the Adoption Assistance program we noted the following:

- A. For 1 of 41 payments selected for testwork, we noted that the case related to a subsequent adoption of an eligible child. Prior to the finalization of the subsequent adoption, the child was not returned to the custody of the Department for Children and Families (the Department) but was receiving specialized services from the Vermont Department of Mental Health (VDMH), whereby the child was residing at a contracted facility that provided the needed specialized services. The daily rate paid by VDMH to the contracted facility represented an all-inclusive rate whereby the daily rate included services for both room and board and health services, which were blended into one daily rate paid by VDMH. When the subsequent adoption was finalized and the new adoption assistance subsidy agreement was entered into, the adoption assistance subsidy rate contained within the agreement was based on the daily rate that had been paid by VDMH. As this rate included health care related costs that would be unallowable under the Foster Care program as part of the foster care maintenance payment rate, it is unclear whether the amount paid by VDMH was appropriate to use as the basis for the adoption assistance subsidy daily rate. We did note however, that the daily rate for this child did not exceed the range of rates that the Foster Care program could pay within its CRF rate structure for children that are deemed medically fragile requiring 24 hour a day specialized care and supervision.
- B. For 1 of 41 payments selected for testwork, we noted that the daily rate paid by the Department was based off of the child's individual service budget (ISB) that represented comprehensive services benefits that the child received while in Foster Care. Services provided under an ISB include health

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care related services provided by third party contractors. Services rendered under the ISB are paid directly to the third party contractors and not the foster care family itself. As the rate that the adoption assistance subsidy agreement was based upon included health care related costs that would not be allowable under the Foster Care program as part of the foster care maintenance payment rate, it is unclear as to whether or not this full rate was appropriate to use as the basis for the adoption assistance subsidy daily rate. We did note however, that the daily rate for this child did not exceed the range of rates that the Foster Care program could pay within its CRF rate structure for children that are deemed medically fragile requiring 24 hour a day specialized care and supervision.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is primarily due to insufficient documentation within the child's file to document how the child's daily rate within the adoption assistance subsidy agreement is reasonable and in accordance with federal requirements.

Effect

The effect of the condition found above is that subsidy rates as outlined in the adoption assistance subsidy file may not be allowable under federal regulations.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend the Vermont Department for Children and Families review its procedures to ensure adoption subsidy daily rates contained within the adoption subsidy agreements are established in accordance with federal requirements and fully documented within the case file.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-038

U.S. Department of Health and Human Services

Program Name and CFDA Number

Adoption Assistance (CFDA #93.659)

Program Award Number and Year

1501VTADPT	10/1/14-9/30/15
1601VADPT	10/1/15-9/30/16

Criteria

Funds may be expended for adoption assistance subsidy payments made on behalf of eligible children, in accordance with a written and binding adoption assistance agreement. Subsidy payments are made to adoptive parents based on the need(s) of the child (i.e., developmental, cognitive, emotional behavioral) and the circumstances of the adopting parents (42 USC 673(a)(2)).

Subsidy payment amounts cannot be based on any income eligibility requirements of the prospective adoptive parents (45CFR Section 1356.41(c)). Adoption assistance subsidy payments cannot exceed the foster care maintenance payment (in accordance with the Title IV-E agency's rate schedule) the child would have received in a foster family home; however, the amount of the subsidy payments may be up to 100 percent of that foster care maintenance payment rate (42 USC 673(a)(3)).

Condition Found

The Vermont Department for Children and Families (the Department) utilizes an information technology (IT) system called SSMIS that maintains information related to children receiving adoption assistance subsidy payments, including the child's placement information, daily subsidy rate amount to be paid, the history of payments made on behalf of the child and the funding source the payment is to be charged to (i.e. the federal Adoption Assistance program or the State of Vermont General Fund).

Once a month a payroll file is created that takes the monthly daily rate for each child and multiplies the rate by the number of days the child stayed with each placement provider to calculate the monthly subsidy payroll amount. This file from the SSMIS system is interfaced with the State of Vermont's central accounting system, the VISION system.

During our testwork over monthly subsidy payments for the Adoption Assistance program, we noted the following:

- A. For 1 of 41 payments selected for testwork, we noted that the subsidy payment selected for testwork was coded within the SSMIS system as an Adoption Assistance subsidy payment, however it was actually a subsidy payment paid on behalf of the Guardianship Assistance Program (GAP), which is a separately funded program. Based on discussions with the Department, the SSMIS system does not have the capability to separately identify payments made under the GAP program. In order to process these payments, the Department codes these expenditures as an Adoption Assistance payment.

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In order to ensure that the costs paid under the GAP program are not included as part of the Department's request for reimbursement under the Adoption Assistance program, the Department maintains an excel spreadsheet that lists each child participating under in the GAP program. The total costs paid on behalf of these children are then deducted to arrive at the adoption assistance expenditures incurred. We were unable to test the accuracy of the manual spreadsheet and were unable to identify any controls in place at the Department to ensure that the spreadsheet was complete and had captured all GAP participants that were incorrectly coded within the SSMIS system as Adoption Assistance.

- B. For 2 of 41 payments selected for testwork, we noted that the payments selected for testwork were not initially charged to the Adoption Assistance program within the SSMIS system but were instead charged to the State of Vermont's General Fund as a State expenditure. Based on our discussions with the Department, we noted that during the months of July and August 2015, there was a computer programming error within the SSMIS system that caused certain eligible Adoption Assistance expenditures to be incorrectly coded as General Fund expenditures. Once the error was identified and corrected, the Department ran a report from the SSMIS to identify children that were eligible to receive Adoption Assistance subsidies during this time period and determined that \$1,257,456 in Adoption Assistance subsidy payments should have been charged to the Adoption Assistance program. To correct the error, the Department recorded a journal entry to transfer the costs from the General Fund to the federal Adoption Assistance program. Per review of the journal entry however, the Department only transferred \$1,240,903 in adoption subsidy payments. Upon further inquiry with the Department, they indicated that the initial journal entry was made in error and subsequent to our testwork they reversed the initial journal entry and recorded a new journal entry to account for the full \$1,257,456 in subsidy payments that should have been charged to the Adoption Assistance program. Based on our review of this process, the Department did not appear to have sufficient controls in place to ensure that the manual journal entry was properly recorded.
- C. For 2 of 41 payments selected for testwork, we noted that the amount paid in the month selected for testwork exceeded the monthly subsidy amount. The overpayment was a result of a programming error within the SSMIS system whereby the monthly subsidy in the month of a child's 6th and 13th birthday is equal to the daily subsidy rate multiplied by the number of days in the month, rather than 30.42. As a result, if the child's birthday falls in a month with 31 days, the payment that month would be overstated. Similarly if the child's birthday falls in the month of February, as the number of days is less than 30, the payment would be understated for this month.

In addition to the above matters noted during our audit related to the use of the SSMIS system, during our audit for the period ending June 30, 2012, we performed a test of design related to the IT general control environment of the SSMIS system. As part of this review, a number of control deficiencies were identified related to access to program data, change management, and computer operations. As a result of the control deficiencies, a test of operating effectiveness of IT general controls or application controls specific to the Adoption Assistance program could not be performed. Since this time, on an annual basis including the period ending June 30, 2016, several inquiries were made with the Department and it was noted that several control deficiencies identified during the review for the year ending June 30, 2012 remain uncorrected by the Department.

The sample was not intended to be, and was not, a statistically valid sample.

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The above condition found was not identified as a finding within the June 30, 2015 audit report.

Cause

The cause of the condition found is primarily the result of the Department's reliance placed on an inadequate and outdated IT system. Due to the system's limitations, the Department is required to perform a variety of manual procedures outside of the system in order to ensure that the correct costs are charged to the Adoption Assistance program.

Effect

The effect of the condition found above is that costs incurred by the Department and charged to the Adoption Assistance program may not be accurate due to the reliance on inadequate IT systems as well as manual procedures to calculate expenditures to be charged to the program.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review the internal control deficiencies related to the SSMIS system identified during the period ending June 30, 2012 and continue to take appropriate actions to ensure that all deficiencies related to access to program data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the SSMIS system. We also recommend that the Department review its existing manual procedures to review costs charged to the Adoption Assistance program and implement written procedures to ensure that all manual adjustments are accurate and properly reviewed.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-039

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Health Care Providers and Suppliers (CFDA #93.777)

Medical Assistance Program (CFDA #93.778)

Program Award Number and Year

11-W-00194/1	1/1/11–12/31/16
11-W-00191/6	10/1/10–9/30/15
75X0512	10/1/10–6/30/15

Criteria

Funds can be used only for Medicaid benefit payments (as specified in the State plan, Federal regulations, or an approved waiver), expenditures for administration and training, expenditures for the State Survey and Certification Program, and expenditures for State Medicaid Fraud Control Units (42 CFR sections 435.10, 440.210, 440.220, and 440.180).

The State Medicaid agency or its designee is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plan (42 CFR Section 431.10).

There are specific requirements that must be followed to ensure that individuals meet the financial and nonfinancial requirements for Medicaid. These include that the State or its designee shall:

- (1) Accept an application submitted online, by telephone, via mail, or in person and include in each applicant's case records to support the agency's decision on the application (42 USC 1320b-7(d); 42 CFR Sections 435.907 and 435.913).
- (2) Request information from other agencies in the State and other State and federal programs to the extent that such information is useful in verifying the financial eligibility of an individual. If information provided by or on behalf of an individual is reasonably compatible with information obtained from the electronic data sources, then the agency must determine or renew eligibility based on such information and may not require the individual to provide any further documentation. If the information is not reasonably compatible, then the agency must provide the individual with a reasonable period of time to explain the discrepancy or furnish additional information (42 CFR Sections 435.948 and 435.952).
- (3) Require, as a condition of eligibility, that each individual seeking Medicaid furnish his or her Social Security number (SSN). This requirement does not apply if the individual (a) is not eligible to receive an SSN, (b) does not have an SSN and may be issued an SSN only for a valid nonwork reason, or (c) because of well-established religious objections, refuses to obtain a SSN. In redetermining eligibility, if the case record does not contain the required SSN, the agency must require the recipient to furnish the SSN (42 USC 1320b-7(a)(1); 42 CFR Sections 435.910 and 435.920).

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- (4) Verify each SSN of each applicant and recipient with Social Security Administration (SSA) to ensure that each SSN furnished was issued to that individual and to determine whether any others were issued (42 CFR Sections 435.910(g) and 435.920).
- (5) Verify and document the citizenship and immigration status of each applicant (42 USC 1320b-7d).

Condition Found

During our review over the eligibility determination process we noted the following:

- Fiscal Year 2014 – During quarter 4 of FY14 the State began automatically re-enrolling individuals in the Medicaid program without the proper eligibility review as required under their State Plan.
- Fiscal Year 2015 – The process of auto renewals continued throughout FY2015 and was done to prevent a significant number of Medicaid beneficiaries from losing their coverage due to system limitations. As such, the State operated out of compliance with their approved Medicaid State plan throughout the entire fiscal year. Subsequent to year end and at KPMG's request, the State worked with Centers for Medicare and Medicaid Services (CMS) to obtain a waiver retroactive to April 1, 2014 when auto-renewals first began in order to get the State into compliance. The State requested, and was granted, an eligibility waiver from CMS to assure that the State would not be held responsible for claim payments made to potential ineligible individuals as a result of not performing timely eligibility renewals. The November 13, 2015 waiver letter from CMS approved a delay in the completion of eligibility renewals:
 - i. Until February 29, 2016 – for beneficiaries who have not had a modified adjusted gross income (MAGI) based eligibility determination (originally scheduled to be performed between April 1, 2014 and December 31, 2014).
 - ii. Until February 29, 2016 – for renewals for Medicaid beneficiaries eligible on a basis other than MAGI (originally scheduled for July 1, 2014 through October 31, 2015).
 - iii. Until November 30, 2016 – for renewals of beneficiaries who received MAGI determinations in Vermont Health Connect system (originally scheduled for January 1, 2015 through October 31, 2016).
 - iv. Of acting on income increases reported by beneficiaries until February 2016 or November 30 as indicated in (i) through (iii) above.
- Fiscal Year 2016 – As noted above, the CMS waiver extended the eligibility deadlines to February 29, 2016 or to November 30, 2016 depending on whether a MAGI determination had been made. During FY16, KPMG inquired of management about the status of the renewals that were to be completed by the February 29, 2016 deadline and we were informed that the State had not fully met the deadline and that CMS would not be extending the November 13, 2015 written waiver as the State was now working under an approved Mitigation Plan with CMS. However, the written mitigation plan, specifically did not cover non-MAGI based eligibility determinations.

During our testwork over eligibility, we selected 65 non-MAGI participants and noted the following:

- A. The Department of Children and Families (the Department) utilizes the ACCESS system, the State of Vermont's benefit eligibility maintenance system, to determine eligibility for the Medicaid program for

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those beneficiaries that are non-MAGI based. After the eligibility specialist data enters financial information into the ACCESS system, ACCESS determines whether or not the applicant is eligible for benefits. The Department does not perform a supervisory review of the information entered to ensure completeness and accuracy.

During the year ending June 30, 2012, a test of design related to the IT general control environment of the ACCESS system was performed. As part of this review, a number of control deficiencies were identified related to access to programs and data, change management, and computer operations. As a result of the control deficiencies, a test of operating effectiveness of IT general controls or application controls specific to the Medicaid program could not be performed. During the period ending June 30, 2016, inquiries were made with the Department and it was noted that while the Department has continued to make improvements to remediate these control deficiencies, as of June 30, 2016 they have not been fully corrected. As a result, we are unable to test the application controls specific to the Medicaid program contained within the ACCESS system and are unable to conclude that there are adequate controls in place surrounding the eligibility determination process for this program and we are unable to rely on the IT controls due to the control deficiencies.

- B. For 25 of 65 participants selected for testwork, we noted the participant's eligibility renewal review was not performed prior the February 29, 2016 waiver deadline and was also not performed by the State's fiscal year end of June 30, 2016. As such, the State does not appear to be in compliance with their wavier. We noted that for 24 out of 25 in our sample the State appeared to have performed an eligibility review for these participants subsequent to June 30, 2016.
- C. For 8 of 65 participants selected for eligibility testwork, we noted that the participant was identified as a U.S. citizen within the ACCESS system; however, their citizenship status was not supported by either a Citizenship or Identification Code or other documentation to verify citizenship as required.
- D. For 5 of the 65 Medicaid participants selected for testwork, the ACCESS system indicated that the participant's Citizenship Code was either "MB" or "MH" meaning that the individual's citizenship was verified using either a Vermont Department of Buildings and General Services or Vermont Department of Health (VDH) cross-match, respectively. However, as noted above, given the system deficiencies identified above within Bullet A, we are unable to rely on the accuracy of the information contained within the ACCESS system alone and the State has no other procedures in place to verify applicant's citizenship status.

The sample was not intended to be, and was not, a statistically valid sample.

A similar finding was noted as part of the June 30, 2015 single audit and was reported as findings 2015-043 and 2015-052.

Cause

The cause of the condition found is primarily the result of the volume of both MAGI and non-MAGI cases that needed to be redetermined by the Department and the related timeline for completing such determinations. In addition, there appears to be inadequate controls in place to ensure that the proper information is obtained to support an applicant's eligibility for Medicaid or adequate controls to review such information for completeness and accuracy when the information is obtained. The Department relies 100% on the ACCESS system and does not perform an independent review to ensure that the data entered into

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the ACCESS system is accurate and that the ACCESS system has made benefit eligibility determinations correctly.

Effect

The effect of the condition found is that the State may have paid benefits on behalf of individuals that may not have been eligible for benefits, resulting in unallowable costs being incurred.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review its procedures over obtaining and validating documentation reported by applicants, as it is used to determine Medicaid eligibility. This process of supervisory or quality control review would ensure that all information is correct, thus supporting an applicant's eligibility. The collection and verification of accurate information would make certain that the State is in compliance with all federal regulations. In addition, we recommend that the Department review the internal control deficiencies related to the ACCESS system identified during the period ending June 30, 2012 and continue to take appropriate actions to ensure that all deficiencies related to access to program data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the ACCESS system.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-040

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Health Care Providers and Suppliers (CFDA #93.777)

Medical Assistance Program (CFDA #93.778)

Program Award Number and Year

11-W-00194/1	10/2/13–12/31/16
11-W-00191/6	10/1/10–9/30/15
75X0512	10/1/10–6/30/15

Criteria

The State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. In addition, the State must have (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials (42 CFR parts 455, 456, and 1002).

The State Medicaid agency must establish and use written criteria for evaluating the appropriateness and quality of Medicaid services. The agency must have procedures for the ongoing post-payment review, on a sample basis, of the need for and the quality and timeliness of Medicaid services. The State Medicaid agency may conduct this review directly or may contract with a quality improvement organization (QIO).

Condition Found

The State Department of Vermont Health Access' (DVHA) Program Integrity (PI) unit, Pharmacy unit, and Clinical Operations unit conduct a program of utilization, peer review, and analysis that safeguards against unnecessary or inappropriate use of Vermont Medicaid covered services and that assesses the quality of services provided to recipients under the Medicaid program.

One control under this program is the use of prior authorizations (PA) for certain health care services. The goal of PA is to assure that the proposed health service, item, or procedure meets the medical necessity criteria; that all appropriate, less-expensive alternatives have been given consideration; and the proposed service conforms to generally accepted practice parameters recognized by healthcare providers in the same or similar general specialty that typically treat or manage the diagnosis or condition. It involves a request for approval of each health service that is designated as requiring prior approval before the service is rendered.

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During our testwork over utilization, we selected a sample of 40 payments requiring prior authorizations and noted the following:

- A. In 1 instance, we noted the file containing the prior authorization was destroyed in a flood, and that a reassessment was currently in the process of being scheduled. As such, we were unable to verify there was a valid prior authorization for the service.
- B. In 1 instance, we noted that the service was for the Children's Personal Care Services (CPCS) program related to an attendant care plan. The file contained 2 Notices of Decision (NOD). The first was from 2013 and included an accompanying Integrated Family Services Intake form. The second NOD was dated for 2016 and contained no additional intake or prior authorization form. As no additional authorization was prepared prior to additional services being provided in 2016, we were unable to verify there was a valid prior authorization.
- C. In 1 instance, we noted that the service was also for the CPCS program related to an attendant care plan. While the file contained several pages of emails, the file did not contain a Notice of Decision or a Prior Authorization form. As a result, we were unable to verify there was a valid prior authorization.

The sample was not intended to be, and was not, a statistically valid sample.

A similar finding was noted as part of the June 30, 2015 audit and was reported as finding 2015-050.

Cause

The cause of the condition found is that the DVHA does not have adequate control procedures in place to ensure that sufficient and complete documentation is maintained and to ensure the appropriate reviews over prior authorizations have been performed.

Effect

The effect of the condition found is that DVHA may be paying for services which were not necessary and met the requirements to be approved.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that DVHA review its policies and procedures in place over prior authorizations and implement procedures to ensure that services are properly approved and meet all the requirements to be approved.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-041

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Health Care Providers and Suppliers (CFDA #93.777)

Medical Assistance Program (CFDA #93.778)

Program Award Number and Year

11-W-00194/1	10/2/13–12/31/16
11-W-00191/6	10/1/10–9/30/15
75X0512	10/1/10–6/30/15

Criteria

Procurement

States, and governmental subrecipients of states, will use the same state policies and procedures used for procurements from nonfederal funds. They also must ensure that every purchase order or other contract includes any clauses required by federal statutes and executive orders and their implementing regulations.

Subrecipient Monitoring

A pass-through entity must:

- Identify the Award and Applicable Requirements – Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR Section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR Section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR Section 200.331(a)(3)).
- Evaluate Risk – Evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR Section 200.331(b)). This evaluation of risk may include consideration of such factors as the following: 1. The subrecipient’s prior experience with the same or similar subawards; 2. The results of previous audits including whether or not the subrecipient receives single audit in accordance with 2 CFR part 200, subpart F, and the extent to which the same or similar subaward has been audited as a major program; 3. Whether the subrecipient has new personnel or new or substantially changed systems; and 4. The extent and results of Federal awarding agency monitoring (e.g., if the subrecipient also receives Federal awards directly from a Federal awarding agency).

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- Monitor – Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR Sections 200.331(d) through (f)). In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subaward monitoring must include the following: 1. Reviewing financial and programmatic (performance and special reports) required by the PTE. 2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means. 3. Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the PTE as required by 2 CFR Section 200.521.

Condition Found

Background

The State of Vermont's procurement guidelines are detailed in State Bulletin 3.5, which establishes the general policy and minimum standards for soliciting services and products from vendors outside of state government, processing the related contract(s), and overseeing established contracts through their conclusion. Key provisions of Bulletin 3.5 include when to use a contract, when to use a grant, the State's bidding process and use of contracting plans which allow for alternative treatments for contracts that cannot be accommodated by the Bulletin.

In November 2008, the Agency of Human Services requested approval of a contracting plan under Bulletin 3.5, indicating that the "class of contracts concerned is that of grants for the provision of services to Vermonters by community organizations that have been identified in the funding authorization." The contracting plan, that was approved, and subsequently amended in May 2011, included the following information:

- The Executive Summary outlined that OMB's categorization of vendors versus subrecipients is different than the State's in that the State's differentiation is based on the form of the agreement and the approvals required. The Request concluded that the difference of categorization allows for the existence of grants according to Bulletin 5.0 that are procurement actions according to the OMB.
- Exhibit B outlined the description of need for a contracting plan indicating that the Agency of Human Services (AHS) administers a substantial amount of expenditures and agreements with community partners that are in effect procurement (or vendor) grants and that the nature of these agreements are partnerships with the AHS to carry out both state and federal program goals. This section continues to state that, "yet the agreements are not sub-awards in which the state passes the federal funds on to a subrecipient that assumes the state's role in implementing the federal program. The Agency of Human Services established strategic direction for implementation of the roles, responsibilities and outcome expectations of the program"

Exhibit B, Section II continues by indicating that the covered agreements are procurements of services as defined by OMB and therefore not subject to the State's procurement policy AND include at least one of the following elements:

- The recipients are not solely subject to selection by AHS. They are identified by federal or state statute or regulation, or
- Grant funding is established in the State budget process, or

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- The agreements are defined and have traditionally been administered as grants in the State's terminology.

The May 2011 amendment to the contracting plan expanded upon the list of entities that fell under procurement grants and clarified those agreements must qualify under the Elements of Procurement Grants in order to be included under the contracting plan. Under these Elements it was stated that covered agreements are procurements of services and defined by the Uniform Guidance and therefore subject to Bulletin 3.5 AND include at least one of the following elements:

- Directed by State law, regulation or appropriation
- Directed by Federal law, regulation or program
- Recipient was named in award to State
- Recipient is by definition in the terms of the award to AHS the only qualified recipient, or
- Recipient has received prior state funding in connection with an ongoing program.

The State of Vermont's subrecipient guidelines are detailed in State Bulletin 5 which sets the policies and procedures, governing the issuing of federally funded grants to subrecipients that are covered by the Uniform Guidance. This Bulletin details the pass-through entities responsibilities; guidelines for distinguishing between a vendor and a subrecipient, subrecipient monitoring requirements and subrecipient grant tracking which requires agencies to data enter key award information into the State's accounting system, VISION, within 10 days of the grant execution date.

The Uniform Guidance defines a subrecipient as a nonfederal entity that receives a subaward from a pass-through entity to carry out a federal program; but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a direct recipient of other federal awards directly from a federal awarding agency; and a vendor as a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the federal program. Section 200.300 of the Uniform Guidance also provides guidance on distinguishing subrecipients from vendors.

Findings

During our testwork over procurement and subrecipient monitoring, we noted the following:

- A. We reviewed the AHS approved contracting plan and noted that it appeared to have inconsistencies with federal regulations. Specifically, we noted the following:
 - 1) While Section 200.300 of the Uniform Guidance provides guidance on distinguishing subrecipients from vendors, it is the substance of the relationship that is more important than the form of the agreement.
 - 2) Exhibit B, Section II of the Contracting Plan indicates that covered agreements are procurements of services as defined by OMB and therefore not subject to the State's procurement policy; however AHS has not provided supporting details or documentation as to how the covered agreements meet the characteristics of a contractor and are therefore procurements. Further, AHS indicates that for an agreement to qualify as a procurement grant it must also meet 1 of the 5 elements noted

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in the May 2011 amendment to the contracting plan; however these criteria do not address the substance of the relationship but rather the logistical aspects for whom will be awarded. For example just because a recipient is directed by state law or named in the award to the state does not mean that they are not a subrecipient. AHS has developed a Subrecipient-Procurement Determination form that is used to document its rationale for each agreement to identify the agreement as a grant, a procurement grant or a contract, however this form has not been consistently by AHS.

- 3) We note that the 5 elements outlined above from the May 2011 amendment present a valid argument for why these agreements should not go through a competitive bid process under Bulletin 3.5; however, it is not clear as to why they would not be sole source contracts under Bulletin 3.5, if they actually meet the definition of being a contractual relationship.

B. We requested an expenditure breakout of all grant payments made during the fiscal year under audit.

- 1) As part of this request we noted that AHS records both procurement grants and subrecipient grants to the same chart strings within their accounting system and as a result we are unable to determine the type of award until the agreement is reviewed and Agency personnel inform us that the arrangement falls under the procurement grant contracting plan.

Additionally we noted that the award agreement that is used to engage entities falling under the procurement grant contracting plan is the same as what is used for subrecipient awards.

- 2) The agreements use terminology such as grantee and grant award that is indicative of a subrecipient award and adds to the confusion as to what type of award is actually being given. In the Standard State Provisions for Contracts and Grants (Attachment C) there is a section regarding the requirement to have a an audit as required by the Uniform Guidance and the clause states, "In the case that this Agreement is a Grant"; however, the State has not made it clear whether the agreement is a grant. Further, the use of the word "Grant" throughout the document might lead the entity to believe they have been awarded a grant
- 3) We noted that many departments within AHS monitor procurement grant recipients in the same manner as they monitor subrecipient awards; further adding to the confusion as to what type of award is actually being given.

C. As AHS was unable to provide expenditure that segregates procurement awards separate subrecipient awards and given the lack of written documentation justifying which agreements are procurements and which are subrecipients, we selected 15 grantees across 5 Agency of Human Service's departments related to the Medicaid program and performed subrecipient monitoring testwork over each grantee. As part of this testwork we noted the following;

- 1) 3 of 15 grants selected for testwork represented a Designated Agency (DA) or Specialized Services Agency (SSA). Per review of the DMH Designated Agency Policy, reviews of Designated

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Agencies (DA) are due every 4 years. Further, DMH Designated Agency Policy requires a Quality Service Audit of Designated Agencies (DA) be performed every 4 years.

- i. In 1 instance, we noted the prior DA report was dated May 11, 2012 and per review of the documentation provided to the DMH, the next report was dated July 27th, 2016, which is beyond the 4 year period. Further, we noted the State's policy indicates that subrecipients are to submit their plan of corrections within 30 days of the report. In this instance the response was received September 14th, 2016 which is outside the 30 day period. We also noted, the Agency did not include in their initial letter that the subrecipient was to respond within the 30 day period. Additionally, the State failed to note in their letter accepting the plan of corrections that the subrecipient was to provided an update on the status of their corrective actions with 6 months.
 - ii. In 1 instance, we noted the Designation letter was issued and a plan of corrections letter received from the subrecipient. However, there was no documentation to support the Agency had followed up with a notification of their acceptance of the corrections.
 - iii. In 1 instance, we noted the prior DMH Quality Service Audit report was dated September 26, 2011 and the current report was filed May 12th, 2016, which is beyond the 4 year requirement.
 - 2) For 8 of 15 grants selected for testwork, we noted that the grantee submitted a variety of required documents to the State, but there was no evidence to support that accuracy of the information provided had been reviewed by the Department nor that the data was in line with the deliverables and performance measures required by of the grant agreement. Further, for 2 of the 8 agreements, the State subsequently indicated the agreement was for a procurement agreement, however, no Subrecipient-Procurement Determination from was provided to support this assertion.
 - 3) For 1 of 15 grants selected for testwork, we noted while the payment appeared to have been approved for payment, the payment was prior to the execution of the agreement.
 - 4) For 13 of 15 grants selected for testwork, we noted the grant agreement was executed after the implementation of the Uniform Guidance. We noted that the Department that executed the grant did not appear to have a documented risk based subrecipient monitoring plan that was utilized to determine what types of monitoring procedures it would perform over its subrecipients based upon the its own independent review of the subrecipient's risk of noncompliance. In addition we were unable to obtain evidence to support that an independent risk assessment had been performed for 4 of the 9 grantees.
 - 5) For 8 of 15 grants selected for testwork, we noted that the grant agreement was missing one or more of the required data elements, such as DUNS number, Federal Award Identification, indirect cost rate, etc. Further, for 2 of the 8 agreements, the State subsequently indicated the agreement was a procurement agreement, however, no Subrecipient-Procurement Determination form was provided to support this assertion.
- D. As AHS was unable to provide expenditure breakouts that segregated procurement awards separate from subrecipient awards, we selected 15 contractors across 5 Agency of Human Service's

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departments and performed subrecipient monitoring testwork over each grantee. As part of this testwork we noted the following;

- 1) For 1 of 15 contracts selected for testwork instance, we noted that the Subrecipient-Procurement Determination form, which is utilized to document subrecipient vs. contractors, was completed on November 12, 2016, subsequent to both the performance period of the agreement and the date the agreement was signed by all parties. Further, the form was not completed until requested as part of the audit.
- 2) For 2 of 15 contracts selected for testwork, we noted per review of the Subrecipient-Procurement Determination form that the agreement was designated as subrecipient grant and were not procurement agreements. However, the State had indicated as part of our audit that this agreement was a procurement grant. As such, there is a discrepancy between the Subrecipient-Procurement Determination form and the tracking of this agreement. Further the agreement indicated it was to be paid from State funds only, however Medicaid dollars were utilized for this agreement. As a result, it was unclear charging this award to Medicaid was appropriate.
- 3) For 1 of 15 contracts selected for testwork, we noted the Subrecipient-Procurement Determination form indicated the agreement was to be a subrecipient grant, however, the State presented this agreement to be a procurement agreement. As such, there is a discrepancy between the Subrecipient-Procurement Determination form and the tracking of this agreement. As a result, we were unable to conclude what type of an award this was.

In summary, AHS has not sufficiently documented its justification for whether a grantee is a vendor or subrecipient based on the substance of the agreement and the contractual document used to engage entities is unclear as to whether the relationship and award is a procurement or subrecipient award. As a result it is unclear what federal regulations apply to these arrangements.

The sample was not intended to be, and was not, a statistically valid sample.

A similar finding was noted as part of the June 30, 2015 audit report and was reported as finding 2015-051.

Cause

The cause of the condition found is that AHS has not sufficiently documented its justification for whether a grantee is a contractor or a subrecipient based on the substance of the agreement and as a result it is unclear what federal regulations apply to these arrangements.

Effect

The effect of the condition found is that the subrecipients may be unable to appropriately account for the funds on their Schedule of Expenditure of Federal Awards, costs may not be spent in accordance with federal regulations, and subrecipients may not be monitored in accordance with federal regulations.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal controls.

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Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency of Human Services review its granting procedures to ensure that grant awards are accurately executed. We also recommend that the Agency review its subrecipient monitoring procedures and implement the necessary policies and procedures to help ensure that subrecipients are monitored in accordance with federal regulations.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-042

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Health Care Providers and Suppliers (CFDA #93.777)

Medical Assistance Program (Medicaid; Title XIX) (CFDA #93.778)

Program Award Number and Year

11-W-00194/1	10/2/13–12/31/16
11-W-00191/6	10/1/10–9/30/15
75X0512	10/1/10–6/30/15

Criteria

State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. State agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR Section 95.621).

Condition Found

The Agency of Human Services (AHS) is the designated single state Medicaid agency. Within AHS, the Department of Vermont Health Access (DVHA) has been designated as the medical assistance unit and the Department for Children and Families (DCF) is responsible for determining client eligibility (using the ACCESS system). While Medicaid eligibility is determined by the State, claims processing is performed through a combination of State and contractor systems and resources.

The CFR requirements indicate that reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. This includes a security plan, risk assessment, and security controls review document. Further, the State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation. Beginning in December 2010 AHS includes a standard contract provision in its Medicaid contracts that requires contractors and subcontractors to provide a security plan, risk assessment, and security controls review documents to support compliance with 45 CFR §95.621. These documents must be provided within 3 months of the start date of the contract and updated annually.

During testwork, we noted the following over the key systems being used:

- A. ACCESS is the benefit eligibility system owned and operated by the State. There was no documentation or support that any kind of security review was performed by Department of Vermont Health Access (DVHA) for the ACCESS system during state fiscal year 2016.

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- B. Medicaid Management Information System/Advanced Information Management System (MMIS/AIM) is the claims payment system owned and operated by HP, a contractor. We noted that the State's contract with HP does contain the standard contract provision requiring the contractor to comply with 45 CFR §95.621, however DVHA was unable to provide the security review and risk assessment that were required to be provided.

A similar finding was noted as part of the June 30, 2015 audit report and was reported as finding 2015-053.

Cause

The cause of the condition found noted in Bullet A above is primarily due to the fact that both the Internal Revenue Service and the Social Security Administration have conducted recent system security reviews related to the ACCESS system and DHVA is currently in the process of remediating the deficiencies noted during the review process. Once the remediation process is finished, the intent is to complete a security review over the ACCESS system. The cause of the condition found in Bullet B above is primarily due to insufficient procedures in place to follow up with its third party contractors to ensure that the required security reviews and risk assessments are completed by the contractor, then reviewed by DVHA.

Effect

The effect of the condition found is that DVHA does not fully comply with the biennial security risk assessment process and therefore may not have properly addressed system security risks of its key systems used to manage the Medicaid program, including the systems related to eligibility determination and claims processing.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal controls.

Questioned Costs

None.

Recommendation

We recommend that the State review its policies and procedures over ADP security review and implement procedures to help ensure that all reviews are performed timely and properly are documented.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

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Finding 2016-043

U.S. Department of Homeland Security

Program Name and CFDA Number

Homeland Security Grant Program (CFDA #97.067)

Program Award Number and Year

EMW-2013-SS-00063	09/1/2013 – 8/31/2015
EMW-2014-SS-00020	09/1/2014 – 8/31/2016
EMW-2015-SS-00028	09/1/2015 – 8/31/2018

Criteria

Title to equipment acquired by a nonfederal entity with federal awards vests with the non-Federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. However, consistent with a nonfederal entity's policy, lower limits may be established.

A State shall use, manage, and dispose of equipment acquired under a federal grant in accordance with state laws and procedures. Subrecipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a subgrant from a state.

Condition Found

During our testwork over equipment management at the Vermont Department of Public Safety (the Department), we noted that the Department does not have a sufficient system in place to track the location of equipment purchased with state and federal funds as well as equipment additions and disposals. As part of the Department's existing corrective action plan related to a similar finding in the prior year, during the year ending June 30, 2016 the Department contracted with a third party to complete its annual equipment asset inventory and to provide recommendations to the Department on its asset management procedures.

Per review of the Department's prepared Asset Inventory Report from June 15, 2016, we noted there were several issues related to the equipment asset inventory count that impacted the vendor's ability to complete the inventory observation itself. Per discussion with the Department, approximately \$2.4 million in equipment assets have been purchased with federal homeland security funds. Of this amount, approximately \$998,000 is currently under review by the Department, and this review includes determining the equipment asset's current location.

The sample was not intended to be, and was not, a statistically valid sample.

A similar finding was noted as part of the June 30, 2015 audit report and was reported as finding 2015-055.

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Cause

The cause of the condition found is primarily due to the large number of locations in which the equipment purchased resides as well as the mobility of the equipment itself. The Department currently has equipment located in over 50 different municipalities and includes items such as laptops and radios that are easily transferable to different employees and locations which causes tracking of the equipment's exact location to be a challenge. The Department does not currently have a system in place to track equipment when its location changes or to ensure that both additions or disposals are properly accounted for.

Effect

The effect of the condition found is that Department has not maintained complete and accurate records related to equipment.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control or to ensure that both additions or disposals are properly accounted for.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department continue to review its existing policies and procedures related to the equipment management process and continue to implement mechanisms to ensure that all equipment is properly identified and tagged. The procedures should include the development of a process to track all equipment so its physical location is updated on a timely basis.

Views of Responsible Officials

We agree with the finding and related recommendation above. We are in the process of implementing a corrective action plan as described in Appendix I.

State of Vermont
Department of Finance & Management
Pavilion Office Building
109 State Street
Montpelier, VT 05609-0201
finance.vermont.gov

Agency of Administration

[phone] 802-828-2376
[fax] 802-828-2428

APPENDIX I
Corrective Action Plan
June 30, 2016

Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards

Finding 2016-001

Department of Vermont Health Access
Medicaid and CHIP Re-determination of Eligibility

Recommendation

We recommend that the State continue to complete eligibility redeterminations and perform other corrective measures as outlined in the Mitigation Plan approved by CMS. Further, as the noncompliance issue has continued into fiscal 2017 the State will need to quantify its exposure for federally ineligible claims paid for each population since the 2016 waiver deadlines.

Corrective Action Plan

The State is in compliance with the mitigation plan and tracking to the timelines for redeterminations and verifications outlined therein. The target date for completion of the potential exposure quantification is July 31, 2017.

Scheduled Completion Date of Corrective Action Plan

July 31, 2017

Contact for Corrective Action Plan

Anne Petrow, DVHA Compliance Officer
Mike Mooradian, AHS Internal Audit Group

anne.petrow@vermont.gov
michael.mooradian@vermont.gov



Finding 2016-002

Department of Vermont Health Access
Health Exchange Premium Reconciliation and Settlement Costs

Recommendation

We recommend that a timely reconciliation of eligibility data between the key systems be performed to ensure that payments are remitted to insurance carriers timely.

Corrective Action Plan

For 2017, the State has an ongoing monthly reconciliation process in with its carrier partners. The goal is to resolve enrollment discrepancies identified in a given month by the end of the following month. The State is currently meeting its monthly enrollment reconciliation service goals, which requires that critical discrepancies identified in a given month are resolved by the end of the following month. In addition, the State is working with its systems integrator to implement a suite of tools that will help the State team identify and resolve discrepancies more quickly, which will reduce the number of discrepancies found on the reconciliation file and meaningfully improve the customer service experience.

Scheduled Completion Date of Corrective Action Plan

March 1, 2017

Contact for Corrective Action Plan

Anne Petrow, DVHA Compliance Officer
Mike Mooradian, AHS Internal Audit Group

anne.petrow@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-003

Treasurer's Office

Retirement Systems – Review of Reports and Information

Recommendation

While the Treasurer's Office generally has good internal processes and controls in place, we believe that the amount and timing of data associated with the GASB 67 and 68 deliverables has put additional strain on the current systems and recommend that the Treasurer's Office continue, in concert with Finance and Management, actuaries and KPMG, to review and improve its current systems. We also recommend working with Finance and Management, KPMG and the State's newly hired Pension actuaries to establish a formal timetable for delivery of the pension information.

Finally, we acknowledge that the Treasurer has already begun performing reviews of selected processes and controls, and has been evaluating and adjusting personnel workloads to help strengthen internal controls. Additionally, meetings are currently being held to help improve coordination among the Treasurer's Office, Finance and Management, KPMG and the pension actuary.

Corrective Action Plan

1. OST has a process in place to review actuarial data including the schedules and crossover analyses aimed at ensuring that data produced by OST is complete and accurate. While certain calculation errors were made in the crossover analysis, the errors did not result in any material changes in the schedules. OST notes that the Systems passed the crossover tests, but OST will review its internal review process to determine how the process should be improved to ensure information received from the actuary is proper and accurate for the crossover and all schedules.
2. OST continuously reviews the pension assumptions to ensure that the funding of the systems and the accounting and disclosures under GASB 67 and 68 are appropriate. This includes working with the state's actuaries, reviewing assumptions used by systems in other states as well as discussing assumptions with the Systems' investment advisors and other professionals. OST believes that the process in place to continually assess the impact of assumptions changes is strong, and understands the need for documenting this assessment. OST plans to conduct a review of its mortality assumptions as part of its transition plan with the state's new pension actuary and will work with Finance and Management, and auditors to ensure agreement on the procedures at the onset of the audit.
3. OST and Finance and Management, along with the actuaries and auditors, will continue to work on refining the reporting timeline and deliverables to help improve the process for 2017. While OST is currently working with the state's new pension actuary, meetings with Finance and Management and the auditors are scheduled to occur this spring to ensure that all parties agree with assumptions and deliverable dates.
4. OST agrees the tables in the appendices to the experience study reports were not properly updated for the VMERS and VSTRS systems, however, the body of the reports agree to the actions of the Boards. The changes subsequently made to the appendix schedules had no impact of the CAFR audit or GASB 68 schedules. OST has already taken steps to improve the quality control on the reports.

Scheduled Completion Date of Corrective Action Plan

June 30, 2017

Contact for Corrective Action Plan

John Booth, Director Treasury Operations
Scott Baker, Financial Reporting Director

john.booth@vermont.gov
scott.baker@vermont.gov

Finding 2016-004

Department of Labor
Unemployment Compensation Trust Fund – Claims Expense

Recommendation

We recommend that the VDOL review its policies and procedures to ensure that issues are appropriately entered in the system to help ensure that benefits are paid only to eligible claimants.

Corrective Action Plan

The Department has reviewed its procedures related to UI claimant work search enrollment, and has implemented a process to ensure out-of-state enrollment is properly and timely documented. This procedure requires the Department to notify claimants of the requirement to register for work with the appropriate out-of-state agency. Additionally, the procedure requires the Department to track out-of-state claimants to ensure they provide the Department with the appropriate documentation for UI eligibility. If documentation is not received in a prescribed timely manner, an issue will be placed on the claimants' file and will be adjudicated per standard Department procedures.

Scheduled Completion Date of Corrective Action Plan

Completed March 1, 2017

Contact for Corrective Action Plan

Cameron T. Wood, Esq., UI & Wages Division Director

cameron.wood@vermont.gov

Finding 2016-005

Department of Labor

Unemployment Compensation Trust Fund – Accounts Receivable Allowance Calculation

Recommendation

We recommend that the Vermont Department of Labor develop formal procedures and a review process over recording the allowance for doubtful accounts related to taxes receivable.

Corrective Action Plan

At the completion of the June 30, 2015 audit the Department responded with and was committed to a corrective action plan to address this issue. However, shortly after issuing a response to the audit findings the Department had significant staff turnover in key personnel as it relates to this issue. Specifically, the Department lost the Program Integrity Chief, the Unemployment Insurance Director, and the IT Manager. Therefore, the corrective action plan was not completed by the June 2016 deadline. The Department has since replaced these key personnel and has completed the corrective action plan as outlined in the 2015 report response.

The Department has made corrections to the existing reports and created additional reports that were outlined in the 2015 audit corrective action plan to ensure accurate reporting going forward.

Below is a listing of the change/additions from the 2015 audit corrective action plan that have been requested of the Information Technology (IT) Unit and the current status.

Changes to the Aged Delinquency Report 313 -

- HC interest needs to be included on the aged report the same as contribution interest
COMPLETED

New report request criteria 1 –

- Aging of only delinquent contributions
COMPLETED

New report request criteria 2 –

- Aging of delinquent HC and HC Interest only
COMPLETED

New report request criteria 3 –

- Aging of delinquent PINT – Penalties, fees and interest.
Report has been created. Testing and completion is due on March 31, 2017

Scheduled Completion Date of Corrective Action Plan

March 31, 2017

Contact for Corrective Action Plan

Cameron T. Wood, Esq., UI & Wages Division Director

cameron.wood@vermont.gov

Finding 2016-006

Statewide

Review and Analysis of Accounts Receivable

Recommendation

We recommend that the Department of Finance and Management work with the departments to perform a comprehensive review of their policies and procedures for recording year end receivables to help ensure that the State's financial statements are complete and accurate. Finance should work with each department to provide them with the knowledge and guidance relating to financial accounting and reporting concepts.

We also recommend that individual departments and agencies carefully review amounts reported on the CAFR-1 to ensure completeness and accuracy prior to submission to the Department of Finance and Management.

We further recommend that the Department of Finance and Management evaluate its procedures for reviewing year end closing packages and for analyzing data for completeness and accuracy of financial information received.

Corrective Action Plan

Department of Finance & Management's Response

DF&M will continue to work with State agencies and departments to improve their knowledge relating to financial accounting and reporting, and internal controls to help ensure the data which they provide is complete and accurate. DF&M will provide guidance on receivable accruals in the Internal Controls Newsletter that will come out at year end, and in the Year-End Closing Instructions. DF&M will meet with selected departments and agencies to better understand their accounts receivable accrual process, provide guidance, and answer any questions related to their CAFR-1 preparation. Through the meetings with individual departments and agencies, DF&M expects to gain better insight into how their CAFR-1 was prepared, which should allow us to perform a more comprehensive review and improve the accuracy of the amounts accrued for accounts receivable as part of the CAFR-1 accrual entry.

Department of Vermont Health Access's Response

DVHA will modify the CAFR-1 procedures to include the reporting of the uncollectible receivables and will ensure that individuals responsible for preparing the CAFR-1 have read and understand the internal policies and procedures. DVHA will communicate with vendors the expectation to evaluate the allowance for uncollectible receivables, with DVHA approving the methodology used by the vendor in advance. The vendor will be required to submit results of estimated uncollectible balances. Regarding FY2017 specifically, DVHA has already instructed the vendor, on the proper reporting of this amount and the methodology that should be used. The Financial Director III or Financial Director IV will be the approving authority for the CAFR-1, as this primarily relates to programmatic receivables.

Department of Children and Families Response

DCF Business Office has added an additional review to the CAFR-1 procedures, prior to sending the completed form to the Department of Finance and Management.

Center for Crime Victim Service's Response

The audit finding is in reference to the Vermont Center for Crime Victim Services Restitution Unit receivables. The receivables represent only the restitution amounts advanced to eligible victims from the Restitution Special Fund. All other restitution is a "pass through" receivable – as the money is collected by the Restitution Unit, it is paid out to victims.

According to our Director of Victim Services when the Restitution Unit became operational in 2004, the Center's Financial Manager, IT Manager and Executive Director met with Finance and Management personnel to discuss how to report receivables for the Unit as part of the State's year end reporting. Pursuant to that discussion, the IT Manager created a summary report to extrapolate data from the Unit's collection software to generate the information required for the CAFR-1. When the Center's IT Manager left, the Director of Victim Services took over running the summary report from the restitution database and giving it to the Financial Manager for completion of the CAFR-1.

In November 2016, KPMG selected the Restitution Unit receivables for random sampling as part of the statewide audit. They requested the detailed reports to demonstrate what made up the summary information that we provided to them. We were able to provide a detailed report; however, the amounts were not the same as captured in the summary report. The outstanding balance due to the fund can change on a daily basis depending on collections. A complicating factor is how data can and cannot be reported from the Unit's collections software. There is no ability to "go back in time" and report exactly what was outstanding as of year-end closing on 6/30. However, with the assistance of Finance and Management, we were able to determine a more accurate receivable amount for the FY16 CAFR-1.

We are confident that the problem has now been corrected as we have developed a new procedure for reporting the receivables going forward, beginning with the FY17 CAFR-1 receivables.

Scheduled Completion Date of Corrective Action Plan

Department of Finance & Management's Response

June 30, 2017

Department of Vermont Health Access's Response

June 30, 2017

Department of Children and Families Response

March 1, 2017

Center for Crime Victim Service's Response

March 1, 2017

Contact for Corrective Action Plan

Department of Finance & Management's Response

Nancy Collins, Director of Statewide Reporting
John Becker, Assistant Director of Statewide Reporting

nancy.collins@vermont.gov
john.becker@vermont.gov

Department of Vermont Health Access's Response

Anne Petrow, DVHA Compliance Officer
Mike Mooradian, AHS Internal Audit Group

anne.petrow@vermont.gov
michael.mooradian@vermont.gov

Department of Children and Families Response

Dan McDevitt, DCF Compliance Officer
Mike Mooradian, AHS Internal Audit Group

daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Center for Crime Victim Service's Response

Mary Kay Hewlett, Director of Victim Services

marykay.hewlett@ccvs.vermont.gov

Finding 2016-007

Agency of Transportation

Department of Motor Vehicles – Revenue Classification

Recommendation

We recommend the Department of Motor Vehicles review its policies and procedures for recording the various types of revenue to ensure that the revenue collected is accurately recorded.

Corrective Action Plan

It is important to note there was no resulting misstatement of and categorization of revenues, and that all resulting revenues due to the Transportation Fund and the Education Fund are accurately stated in VISION.

Findings 1-3: The Motor Fuels/Diesel Tax issues have been addressed through a procedural change implemented in August of 2016. This revenue is no longer processed through Data Entry; it is now delivered directly to Accounts Receivable for direct categorization into the VISION system. Removal of the unnecessary steps and inclusion of a secondary review of the proposed revenue distribution has increased the accuracy and reduced the opportunity for error.

Finding 4: This finding relates to the categorization of Purchase and Use Taxes collected on trucks. Currently these taxes are recorded in various fee codes based on the trucks weight but in the end, all revenue is placed in the same VISION account code. This separation serves no internal purpose and we are not aware of any external purpose. We plan to discontinue this practice of using various fee codes based on the trucks weights, and record all the revenue in one fee code.

The Department is in the implementation phase of a robust Cashiering System with a go live date of September 2017. This Cashiering system will automatically categorize revenue based on the transaction rather than relying on human entry of revenue; thereby virtually eliminating the opportunity for miss-categorization. The system will improve the accuracy of all revenue categorization going forward.

Scheduled Completion Date of Corrective Action Plan

June 30, 2017

Contact for Corrective Action Plan

Mike Smith, Director of Operations

michael.smith@vermont.gov

Finding 2016-008

Vermont Department of Labor
Information Technology Controls

Recommendation

We continue to recommend that the Department address the internal control deficiencies related to the key systems identified during the 2012 review and take appropriate actions to ensure that all deficiencies related to access to programs and data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the systems. In addition, the Department should review the application controls in the FARS, VABS and CATS systems that are instrumental to helping the Department maintain compliance and ensure that the controls are functioning properly.

Corrective Action Plan

VDOL has put significant effort toward improving internal controls of key systems, establishing and implementing three administrative policies. The implemented policies are:

- VDOL Policy Number 21: Security Policies for the Labor Enterprise Computing (LEC) System
- VDOL Policy Number 22: Policy for Change & Configuration Management (CCM)
- VDOL Policy Number 23: Internal Review of Application Controls in FARS, VABS, and CATS system

These policies implement password demands, information security requirements, storage of data requirements, physical security requirements, physical access requirements, incident reporting, formal change management processes, and periodic reviews of application controls.

In addition, VDOL has purchased, installed and is testing our disaster recovery servers. Independent testing, review, and external certification will occur before the end of the 2nd quarter 2017.

Scheduled Completion Date of Corrective Action Plan

June 30, 2017

Contact for Corrective Action Plan

Tom Tomasi, Director of Administrative Services

tom.tomasi@vermont.gov

Finding 2016-009

Agency of Human Services

Information Technology Controls

Recommendation

We continue to recommend that DCF review its procedures and implement controls to ensure that a quality control review is performed over the eligibility determinations made by the ACCESS in order to verify that such eligibility determinations are accurate. This would include procedures to ensure that the data entered into the ACCESS system that is used to determine eligibility is accurate and properly supported with external documentation. In addition, we recommend that the Department review the internal control deficiencies related to the ACCESS system identified during the 2012 review and take appropriate actions to ensure that all deficiencies related to access to program data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the ACCESS system.

Corrective Action Plan

- a. The Department for Children and Families (DCF) recently implemented several new IT-related policies, including security policies. These policies are DCF specific and work in conjunction with the AHS policies.
- b. DCF established a formal written Access Control Policy as of November 1, 2016. DCF has been following the policy for years, but did not have it formally documented until recently.
- c. In response to KPMG's concern about the mitigating control for emergency changes, DCF will make sure supervisors review and approve emergency changes to ensure they are appropriate and it will be added as a step in the SDLC. ACCESS mainframe technology does not utilize production/audit logs for code deployments. It has a built-in version control system. Code is checked out, changed, and checked back in prior to being pushed to production. A code review is performed utilizing a compare function, which locates and identifies all the changes in code between the current version and prior version.

Target date for completion of the formal written DCF Change Control SOP is April 30, 2017.

DCF is responsible for the IT controls surrounding the ACCESS system. DCF and DVHA enrollment & eligibility units rely on the ACCESS system for their programs and acknowledge the need to perform quality control reviews to ensure that accuracy of data entered and the maintenance of supporting documentation to identify and resolve discrepancies.

Scheduled Completion Date of Corrective Action Plan

April 30, 2017

Contact for Corrective Action Plan

Dan McDevitt, DCF Compliance Officer
Anne Petrow, DVHA Compliance Officer
Richard DiMatteo, DCF Deputy IT Director

daniel.mcdevitt@vermont.gov
anne.petrow@vermont.gov
Richard.dimatteo@vermont.gov

Findings Relating to Federal Awards

Finding 2016-010

U.S. Department of Agriculture

Program Name and CFDA Number

SNAP Cluster:

Supplemental Nutritional Assistance Program (CFDA #10.551)

State Administrative Matching Grants for the Supplemental Nutritional Assistance Program
(CFDA #10.561)

Recommendation

We recommend that the Department review its existing EBT card count procedures and implement controls to ensure that a complete and accurate count is performed and supporting documentation is maintained and reviewed.

Corrective Action Plan

The EBT card processing and EBT card reconciliation procedures are being reviewed, updated and tested. Appropriate controls and supporting documentation will be put in place ensuring that a complete and accurate EBT card count is performed and reviewed.

Scheduled Completion Date of Corrective Action Plan

March 31, 2017

Contact for Corrective Action Plan

Melanie Rutledge, EBT Director
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group

melanie.rutledge@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-011

U.S. Department of Agriculture

Program Name and CFDA Number

SNAP Cluster:

Supplemental Nutritional Assistance Program (CFDA #10.551)

State Administrative Matching Grants for the Supplemental Nutritional Assistance Program
(CFDA #10.561)

Recommendation

We recommend that the Department obtain and review the third party service organization's SOC 1 report to ensure their controls are operating effectively and that it has adequately addressed all complementary user control considerations. The Department should also ensure its review of the SOC 1 report is documented and addresses any control exceptions noted by the auditor that may impact the transactions processed by the third party service organization on behalf of the State. If such exceptions exist, it should be noted if other controls should be implemented by the Department to mitigate those control deficiencies. The Department should also ensure that its complementary user controls are documented and consistently applied during the year.

Corrective Action Plan

A written procedure is being created to ensure the SOC 1 report is reviewed, to document any deficiencies within the report, and how to follow up when necessary. The SOC 1 report will be digitally signed attesting to the review as well as noting any exceptions.

When the third-party service provider's SOC 1 report is received, the EBT Director will review the report in its entirety to ensure there are no audit exceptions that need to be addressed. Should the SOC 1 indicate deficiencies in the provider's internal controls, the EBT Director will contact the service provider to assess the risk that the deficiencies pose to the State and ascertain the service providers planned corrective action and timeline for rectifying the deficiency. Any necessary steps to mitigate identified risks to the State will be taken immediately.

The EBT Director will review the Complementary User Entity Controls identified in the SOC 1 report to ensure that the controls are being consistently applied throughout the year.

Scheduled Completion Date of Corrective Action Plan

June 30, 2017

Contact for Corrective Action Plan

Melanie Rutledge, EBT Director
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group

melanie.rutledge@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-012

SNAP Finding 2016-003

U.S. Department of Agriculture

Program Name and CFDA Number

SNAP Cluster:

Supplemental Nutritional Assistance Program (CFDA #10.551)

State Administrative Matching Grants for the Supplemental Nutritional Assistance Program
(CFDA #10.561)

Recommendation

We recommend that the Department implement policies and procedures to ensure the daily EBT reconciliations are performed accurately and completely and that there is a supervisory review over the reconciliations.

Corrective Action Plan

The Department's EBT procedures are being updated to ensure that, on a daily basis, the EBT reconciliation is reviewed for accuracy and approved by the EBT Director. Monthly, an independent third-party review of the reconciliations will be performed by the Department's Audit Director.

Scheduled Completion Date of Corrective Action Plan

June 30, 2017

Contact for Corrective Action Plan

Melanie Rutledge, EBT Director
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group

melanie.rutledge@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-013

U.S. Department of Health and Human Services

Program Name and CFDA Number

Low Income Home Energy Assistance (CFDA #93.568)

TANF Cluster:

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)

SNAP Cluster:

Supplemental Nutritional Assistance Program (CFDA #10.551)

State Administrative Matching Grants for the Supplemental Nutritional Assistance Program (CFDA #10.561)

Recommendation

We recommend that the Department review its procedures and continue to implement and refine controls to ensure that a documented quality control review is performed over the eligibility determinations made by the ACCESS system in order to verify that such eligibility determinations and benefit payments are accurate.

Corrective Action Plan

An improved monitoring process for SCRs was implemented during the month of September 2016. The improvements made by the Department refined controls over the quality control review process (i.e. SCRs) in the following manner:

- An “Executive Dashboard” report was implemented to monitor various performance metrics including the completion rate of SCRs for every District Office (DO), every month;
- Specifically, Operations Directors overseeing the DOs are responsible for holding the Regional Manager (RM) of every DO accountable in achieving an SCR completion rate of 100%. RMs must review three (3) SCRs per month, for each supervisor, in every DO. This expectation is a specific performance measure for every RMs annual Performance Evaluation. In turn, timely and accurate SCR completions are also a performance measure for every Supervisor’s annual Performance Evaluation.
- As such, there is a three-tiered quality control and accountability process currently in place (i.e., at the central office level by Operations Directors reviewing DO work, at the DO level by RMs reviewing Supervisors’ work, and at the eligibility worker level conducted by Supervisors) to ensure timely, accurate, and complete documentation of the quality control review process (i.e., SCRs) to verify the accurate determination of eligibility, and associated benefit payments, made by the ACCESS system.

Scheduled Completion Date of Corrective Action Plan

Completed September 1, 2016

Contact for Corrective Action Plan

Trish Tyo, Economic Benefits Director
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group

tricia.tyo@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-014

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster:

National School Lunch Program (CFDA #10.555)

Summer Food Service Program for Children (CFDA #10.559)

Recommendation

We recommend that the Agency review its existing monitoring procedures and develop controls to ensure that risk assessment procedures are performed timely over subrecipients. These procedures should ensure that subrecipient monitoring procedures performed are linked to the specific risks identified as part of the risk assessment process. We recommend that the Agency develop written procedures for reviewing program applications to ensure all applications are complete and accurate, and consistently reviewed by the Agency in order to verify that all eligibility requirements have been met to participate in the federal program. In addition, we recommend that the Agency review its existing programmatic monitoring procedures and develop controls to ensure that all procedures are performed timely and are properly documented. The written procedures should ensure that all required documentation is compiled and maintained to support each monitoring visit and whether or not matters identified during the review require corrective action. Further, a supervisory review should be conducted to ensure each file is complete prior to closure.

Corrective Action Plan

Application Reviews and Award Monitoring

A new staff training series was implemented in FY17 to address the issues referenced above. Included in this series were implementation of checklists, second review procedures, administrative review requirements, and other USDA required elements. We believe that this new training series will address the bulk of the issues covered in the Applicant Review and Award Monitoring sections. The material covered in this series will be turned into written procedures for staff to use when reviewing and approving annual applications.

It is important to note that, based upon a recent Management Evaluation with USDA (conducted March 2017), AOE has been recognized as having a barely sufficient staffing level to cover required administrative reviews. Having said this, we will do our best to implement the corrective actions.

Award Identification

CFDA numbers were on the Applications upon Go-Live of the Colyar system in April 2016.

Risk Assessments

The Agency has determined the finding contains two parts; compliance with Vermont State Bulletin 5 and compliance with the Federal Uniform Guidance, 2 CFR Part 200. As such the Agency wishes to address the finding components separately.

Risk Assessment per 2 CFR 200.331 (6)(b) and 7 CFR 210.14

The Agency conducts combined programmatic and fiscal reviews of the NSLP program per the requirements of the USDA. The USDA's prescribed process includes the requirement to conduct administrative reviews of 1/3 of the total subrecipients each year resulting in a review schedule of every subrecipient being reviewed once every three years. USDA's process includes a built-in risk assessment tool that determines the level of review required. Each subrecipient to be reviewed in a given year is sent the "administrative review" document to complete. The answers to the questions determine the risk and the depth of required administrative review.

Pre-Eligibility and Pre-Award Risk Assessment per Vermont State Administrative Bulletin 5

Bulletin 5 Pre-Award Risk Assessment

Bulletin 5 requires the agency to complete a pre-award risk assessment establishing if a subrecipient represents a high-risk. If a high-risk determination is made the subrecipient would be placed on a reimbursement basis. The agency does not believe that NSLP federal entitlement funds require the pre-award risk assessment as the funds are already paid exclusively via a reimbursement claim process; therefore, minimizing the risk. In addition, the three-year cycle for administrative reviews allows for frequent touchpoints and timely review of the subrecipient's cash management process.

Over the next year, the AOE will work with the administration and USDA to clarify the terms under which NSLP funds meet the intent of a pre-award eligibility determination. We will continue to use current procedures that place a financial hold on all subrecipients that are delinquent in the submission of single audit reports or the annual subrecipient annual report for the most current three years. The AOE will not process federal reimbursement funds to entities appearing on the suspension and debarment list.

Following these procedures, the AOE will either adopt procedures as agreed upon or request a waiver from the Commissioner of Finance and Management from the Bulletin 5 requirement to complete a pre-award eligibility and risk assessment for subrecipients of all federal "entitlement" funds per the above to ensure duplication of effort and improve efficiency.

Scheduled Completion Date of Corrective Action Plan

Before the start of the FY17 Administrative Review season, a new staff training series was implemented and was conducted prior to the review and approval of annual applications and conducting administrative reviews. We will conduct additional staff training by July 30, 2017 to review procedures for the review and approval of annual agreement and applications. By October 30, 2017, we will conduct staff training that will cover administrative review requirements.

UGG Risk Assessment: The Agency will develop the protocol into a written document per our implementation plan by December 30, 2017.

Bulletin 5 Pre-Award Eligibility Check: The Agency will develop a plan to conduct the full pre-eligibility requirement of Bulletin 5 for the NSLP funds by October 1, 2017.

The Colyar system was fully implemented in October 2016.

The collaboration with the administration will begin in April 2017 and come to agreement by July 1, 2017.

Contact for Corrective Action Plan

Laurie Colgan, Education Assistant Division Director
Jennifer Gresham, Division Director

laurie.colgan@vermont.gov
jennifer.gresham@vermont.gov

Finding 2016-015

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster:

National School Lunch Program (CFDA #10.555)

Summer Food Service Program for Children (CFDA #10.559)

Recommendation

We recommend that the Agency review its existing claims reimbursement process to ensure manual controls are implemented to ensure that claims can be submitted timely. The Agency should also review its existing procedures to ensure that sufficient policies and procedures are in place to manage system upgrades.

Corrective Action Plan

All of the issues in this finding were the result of the upgrade process to the new Colyar online application and claiming system. Each has been resolved with the new system which was fully implemented in October 2016. The system has not had any downtime since implementation due to the structure and process of the Colyar backup and management functions.

The Program Team will work with the data/technology team to ensure that all future system upgrades have suitable testing prior to deployment to SFA's. Although there are no anticipated upgrades to the Colyar system planned at this time, when an upgrade or system change is to be implemented in the future, the Program and Data/Technology teams will create a plan for non-interruption of service 6 months prior to implementation.

Scheduled Completion Date of Corrective Action Plan

Completed with the Colyar system implementation which was fully functional as of October 2016.

Contact for Corrective Action Plan

Laurie Colgan, Education Assistant Division Director
Jennifer Gresham, Division Director

laurie.colgan@vermont.gov
jennifer.gresham@vermont.gov

Finding 2016-016

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster:

National School Lunch Program (CFDA #10.555)

Summer Food Service Program for Children (CFDA #10.559)

Recommendation

We recommend that the Agency review its existing procedures to ensure that there are adequate controls and procedures in place to ensure funds paid to subrecipients for matching purposes are used for allowable purposes under the Child Nutrition Cluster.

Corrective Action Plan

Although the Child Nutrition Team does currently review information reported on the Financial Reports, we will reexamine the process from beginning to end and provide training on the Colyar online application and claiming system, as well as provide guidance on the importance of the use of quality data when entering claims and filing reports.

The Child Nutrition team will continue to review the financial reports submitted by the SFA business officials to determine if the SFA has excessive net cash resources, and/or identify incorrect information, and will initiate corrective action procedures as necessary up to and including withholding funds.

Scheduled Completion Date of Corrective Action Plan

Staff and field training on this topic is conducted annually and will be conducted again by September 30, 2017.

Contact for Corrective Action Plan

Laurie Colgan, Education Assistant Division Director
Jennifer Gresham, Division Director

laurie.colgan@vermont.gov
jennifer.gresham@vermont.gov

Finding 2016-017

U.S. Department of Agriculture

Program Name and CFDA Number

Special Supplemental Program for Woman, Infants, and Children (CFDA 10.557)

Recommendation

We recommend that the Department review its existing policies related to the eligibility process to ensure they obtain the documentation necessary to support that participants have met all eligibility requirements and that the documentation reviewed to support its determination is properly maintained within the participant's case file in accordance with federal regulations.

Corrective Action Plan

The Department agrees with the recommendation and has taken the following actions:

1. The Income Documentation section of the WIC Policy and Procedures Manual was reviewed and updated to ensure clear and precise procedures and consistency with federal regulations.
2. The revised Income Documentation policy was reviewed with all staff to ensure that staff understand the procedures and to emphasize the importance of adherence to policy.
3. A district office management review process was implemented in 2010 in which central office staff sample at least 2% of active records in each district office every other year, and district supervisors conduct the review in alternate years. A corrective action plan is required if 5% of sampled records are out of compliance. The WIC Operations Manual was recently updated to reflect this process.

Scheduled Completion Date of Corrective Action Plan

1. The Income Documentation section of the Manual was updated on November 23, 2016.
2. The revised Income Documentation policy was reviewed with all WIC staff during a webinar on January 23, 2017.
3. The district office management review process was implemented on October 1, 2010 and was updated in the WIC Operations Manual on October 6, 2016.

Contact for Corrective Action Plan

Patrick Burke, VDH Financial Manager
Mike Mooradian, AHS Internal Audit Group

patrick.burke@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-018

U.S. Department of Health and Human Services

Program Name and CFDA Number

Woman, Infants, and Children (CFDA 10.557)

Recommendation

We recommend that the Department obtain and review the third party service organization's SOC 1 report to ensure their controls are operating effectively and that it has adequately addressed all complementary user control considerations. The Department should also ensure its review of the SOC 1 report is documented and addresses any control exceptions noted by the auditor that may impact the transactions processed by the third party service organization on behalf of the State. If such exceptions exists, it should be noted if other controls should be implemented by the Department to mitigate those control deficiencies. The Department should also ensure that its complementary user controls are documented and consistently applied during the year.

Corrective Action Plan

The Department implemented procedures to review the SOC 1 report for 2016, the most recent report, and review was completed on January 10, 2017. In the report, eight complementary controls were recommended and all controls were in place at the time of the review. The Department also reviewed its documentation of complementary controls and determined that four controls are documented in the Ceres/EPPIC security plan (implemented December 15, 2015); three have stand-alone written documentation (implemented February 25, 2015) and one is performed daily but not yet documented.

Annually, Health Department staff will review the SOC 1 and document the review as well as any action taken as a result of the review. The WIC Policy and Procedure Manual—which is Part II of the State Plan that is submitted to USDA—will be updated to include a section related to the SOC 1 review.

Scheduled Completion Date of Corrective Action Plan

- The Department completed its review of the 2016 SOC 1 report on January 10, 2017.
- Documentation of all complementary controls will be folded into the WIC central office operations guide by August 15, 2017.
- The WIC Policy and Procedure Manual was updated on January 13, 2017.

Contact for Corrective Action Plan

Patrick Burke, VDH Financial Manager
Mike Mooradian, AHS Internal Audit Group

patrick.burke@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-019

U.S. Department of Agriculture

Program Name and CFDA Number

Child and Adult Care Program (CFDA 10.558)

Recommendation

We recommend that the Agency review its existing monitoring procedures and develop controls to ensure that risk assessment procedures are performed timely over subrecipients. These procedures should ensure that subrecipient monitoring procedures performed are linked to the specific risks identified as part of the risk assessment process. We recommend that the Agency develop written procedures for reviewing program applications to ensure all applications are complete and accurate, and consistently reviewed by the Agency in order to verify that all eligibility requirements have been met to participate in the federal program. Written procedures should also be developed to ensure that prior to the execution of a grant agreement, that the agreement is reviewed and contains all the data as outlined in 2 CFR Section 200.331(a)(1). In addition, we recommend that the Agency review its existing programmatic monitoring procedures and develop controls to ensure that all procedures are performed timely and are properly documented. The written procedures should ensure that all required documentation is compiled and maintained to support each monitoring visit and whether or not matters identified during the review require corrective action. Further, a supervisory review should be conducted to ensure each file is complete prior to closure.

Corrective Action Plan

The new Colyar online application and claiming system addresses some of the Application Reviews issues covered above. For the other, a new staff training series was implemented in FY17 to address the issues referenced above. Included in this series were implementation of checklists, second review procedures, monitoring requirements, and other USDA required elements. We believe that this new training series will address the bulk of the issues covered in the Application Reviews section. The material covered in this series will be turned into written procedures for staff to use when reviewing and approving annual applications.

Award Identification

CFDA numbers were on the Applications upon Go-Live of the Colyar system in April, 2016.

Risk Assessments

The Agency has determined the finding contains two parts; compliance with Vermont State Bulletin 5 and compliance with the Federal Uniform Guidance, 2 CFR Part 200. As such, the Agency wishes to address the finding components separately.

Risk Assessment per 2 CFR 200.331 (6)(b) and 7 CFR 210.14

The Agency conducts combined programmatic and fiscal reviews of the CACFP program per the requirements of the USDA. The USDA's prescribed process includes the requirement to conduct administrative reviews of 1/3 of the total subrecipients each year resulting in a review schedule of every subrecipient being reviewed once every three years. USDA suggests the state develop risk factors to determine the high-risk institutions or facilities in their field work. The team will research the required elements and create a risk assessment tool to identify potentially risky sub recipients prior to the administrative review, and will flag the highest risk recipients for a deeper review protocol. The team has a protocol for managing subrecipients out of compliance that includes corrective action planning, loss of access to funds and a follow up visit. This protocol will be developed into a written procedure.

The team has a protocol for managing subrecipients out of compliance that includes corrective action planning, loss of access to funds and a follow up visit. This protocol will be developed into a written procedure.

Pre-Eligibility and Pre-Award Risk Assessment per Vermont State Administrative Bulletin 5

Pre-Award Eligibility Check: The Agency will develop a plan to conduct the full pre-eligibility requirement of Bulletin 5 for the CACFP funds.

Pre-Award Risk Assessment: Bulletin 5 requires the agency to complete a pre-award risk assessment establishing if a subrecipient represents a high-risk. If a high-risk determination is made the subrecipient would be placed on a reimbursement basis. The agency does not believe that CACFP federal entitlement funds require the pre-award risk assessment as the funds are already paid exclusively via a reimbursement claim process; therefore, minimizing the risk. In addition, the three-year cycle for monitoring allows for frequent touchpoints and timely review of the subrecipient's grants management process.

Over the next year, the AOE will work with the administration and USDA to clarify the terms under which CACFP funds meet the intent of a pre-award eligibility determination. We will continue to use current procedures that place a financial hold on all subrecipients that are delinquent in the submission of single audit reports or the annual subrecipient annual report for the most current three years. The AOE will not process federal reimbursement funds to entities appearing on the suspension and debarment list.

Following these procedures, the AOE will either adopt procedures as agreed upon or request a waiver from the Commissioner of Finance and Management from the Bulletin 5 requirement to complete a pre-award eligibility and risk assessment for subrecipients of all federal "entitlement" funds per the above to ensure duplication of effort and improve efficiency.

Scheduled Completion Date of Corrective Action Plan

The corrective action will be developed and implemented by September 30th of 2017. Staff training has already been taking place and the Colyar system was fully functioning in October 2016.

The written procedure will be complete by October 30 2017.

The collaboration with the administration will begin in April 2017 and come to agreement by July 1, 2017.

Contact for Corrective Action Plan

Laurie Colgan, Education Assistant Division Director
Jennifer Gresham, Division Director

laurie.colgan@vermont.gov
jennifer.gresham@vermont.gov

Finding 2016-020

U.S. Department of Labor

Program Name and CFDA Number

Unemployment Insurance (CFDA #17.225)

Recommendation

We recommend that the Department review the internal control deficiencies related to the key systems identified during the period ending June 30, 2012 and take appropriate actions to ensure that all deficiencies related to access to programs and data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the systems. In addition, the Department should review the application controls in the VABS and CATS systems that are instrumental to helping the Department maintain compliance and ensure that the controls are functioning properly.

Corrective Action Plan

The Department (VDOL) has put significant effort toward improving internal controls of key systems, establishing and implementing three administrative policies:

- VDOL Policy Number 21: Security Policies for the Labor Enterprise Computing (LEC) System
- VDOL Policy Number 22: Policy for Change & Configuration Management (CCM)
- VDOL Policy Number 23: Internal Review of Application Controls in FARS, VABS, and CATS system

These policies implement password demands, information security requirements, storage of data requirements, physical security requirements, physical access requirements, incident reporting, formal change management processes, and periodic reviews of application controls.

In addition, VDOL has purchased, installed and is testing disaster recovery servers. Independent testing, review, and external certification will occur by June 30, 2017.

Scheduled Completion Date of Corrective Action Plan

June 30, 2017

Contact for Corrective Action Plan

Tom Tomasi, Director of Administrative Services

tom.tomasi@vermont.gov

Finding 2016-021

U.S. Department of Labor

Program Name and CFDA Number

Unemployment Insurance (CFDA #17.225)

Recommendation

We recommend that the Department review its procedures related to Job-link enrollment monitoring and data entry by regional staff and put into place review controls to ensure enrollment is properly and timely documented and communicated to the UI Division

Corrective Action Plan

The Department has reviewed its procedures related to UI claimant work search enrollment, and has implemented a process to ensure out-of-state enrollment is properly and timely documented. This procedure requires the Department to notify claimants of the requirement to register for work with the appropriate out-of-state agency. Additionally, the procedure requires the Department to track out-of-state claimants to ensure they provide the Department with the appropriate documentation for UI eligibility. If documentation is not received in a prescribed timely manner, an issue will be placed on the claimants' file and will be adjudicated per standard Department procedures.

Scheduled Completion Date of Corrective Action Plan

Completed March 1, 2017

Contact for Corrective Action Plan

Cameron T. Wood, Esq., UI & Wages Division Director

cameron.wood@vermont.gov

Finding 2016-022

U.S. Department of Transportation

Program Name and CFDA Number

Airport Improvement Program (CFDA #20.106)

Recommendation

We recommend that the Agency review its existing policies and procedures surrounding the review and approval of contractor invoices to ensure that the review of invoices is consistently documented and that the documentation submitted by the contractor properly supports the amount requested for reimbursement. This would include ensuring that the requested amount agrees to all supplemental schedules provided to support the request for reimbursement, and if it doesn't that the reason why is properly documented.

Corrective Action Plan

As soon as auditors brought these issues to the forefront, we began working on corrective measures. A meeting held on December 16, 2016 was the latest in the ongoing efforts to re-train staff, establish stronger processes, and spread the burden for accurate contractor payments among several individuals with multiple levels of oversight.

New procedures to increase the level of review of invoices and all accompanying documentation, prior to payment, have been developed and implemented. Invoice review checklists have been developed, tested, and have been distributed throughout the agency. In the Aviation Program, invoices will be reviewed by the Division Business Manager and by a Program Manager in the Aviation Office, as well as the Project Managers. Written procedures are well underway. Additionally, the Vermont Agency of Transportation (VTrans) Audit staff will include Aviation in its ongoing quarterly audit of paid invoices.

Scheduled Completion Date of Corrective Action Plan

Procedures and checklists were finalized and put into practice in the Aviation Program on January 1, 2017.

Contact for Corrective Action Plan

Emily Mascitti, PPID Division Business Manager
Cathy Hilgendorf, VTrans Audit Chief

emily.mascitti@vermont.gov
cathy.hilgendorf@vermont.gov

Finding 2016-023

U.S. Department of Transportation

Program Name and CFDA Number

Airport Improvement Program (CFDA #20.106)

Recommendation

We recommend that the Agency review its existing policies and procedures surrounding the review and monitoring of its contractors' compliance with the provisions of the Davis-Bacon Act. These procedures should include the timely review of certified payroll reports to ensure that the wages paid are appropriate and that the review of the reports is properly documented. If the Agency continues to outsource the monitoring of this requirement to a third party, the Agency should implement procedures to ensure that the requirement is being adequately performed by the third party and any matters of noncompliance identified by the third party are followed up on timely.

Corrective Action Plan

The Agency is studying the pros and cons of continuing to outsource the Davis-Bacon compliance, with increased oversight and new procedures established within the Aviation Section for oversight of contractors' work. The alternative under consideration is to cease using a third party to review certified payrolls and instead move Davis-Bacon compliance for AIP-funded projects into our Civil Rights and Labor Compliance Section, which has effective procedures already in place.

Scheduled Completion Date of Corrective Action Plan

Completed February 28, 2017

Contact for Corrective Action Plan

Lori Valburn, Section Chief, Civil Rights and Labor Compliance
Cathy Hilgendorf, VTrans Audit Chief

lori.valburn@vermont.gov
cathy.hilgendorf@vermont.gov

Finding 2016-024

U.S. Department of Transportation

Program Name and CFDA Number

National Infrastructure Investments (RAIL) (CFDA #20.933)

Recommendation

We recommend that the Agency review its existing policies and procedures related to procurement to ensure that the Agency consistently follows the provisions required of Bulletin 3.5.

Corrective Action Plan

As noted in the finding, this isolated incident was a matter of confusion at the time of procurement related to partnership with the contractor in conjunction with grant acceptance. Vermont Agency of Transportation (VTrans) Rail Division staff now understand that the AA-1 grant acceptance process does not in any way replace the requirements of Bulletin 3.5.

For future awards, VTrans acknowledges that the requirements of Bulletin 3.5 apply, and will complete all such forms and procedures as required by Bulletin 3.5 or an approved Bulletin 3.5 Contracting Waiver Plan, including sole source justification when applicable, as we currently do for other Agency contracts.

Scheduled Completion Date of Corrective Action Plan

Completed. New procedures were put in place immediately.

Contact for Corrective Action Plan

Trini Brassard, Assistant Division Director
Cathy Hilgendorf, VTrans Audit Chief

trini.brassard@vermont.gov
cathy.hilgendorf@vermont.gov

Finding 2016-025

U.S. Department of Education

Program Name and CFDA Number

Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA #84.126)

Recommendation

We recommend that the Department review its existing quality control procedures to ensure that the forms and other tools utilized as part of this process are finalized and individuals performing the reviews are adequately trained to ensure that the review results are sufficiently documented.

Corrective Action Plan

The Department of Disabilities, Aging and Independent Living (DAIL/VR) agrees that the casework review process was new and in a developmental stage. As with any new initiative implemented across multiple districts, there were inconsistencies in the way the process was completed.

To implement the case review process, DAIL/VR developed a standard review tool using an Adobe fillable form. The form was designed so responses to some of the specific questions on the form would result in either an automatic audit pass or fail decision. Other more qualitative and potentially subjective questions would provide a rating score. The purpose was to rate both casework compliance and quality. The response data from completed Adobe review forms are pulled into an SQL database which will allow DAIL/VR to identify issues and target further training and supervisory interventions.

The final section of the form was designed to automatically calculate if the case would pass audit and provide a qualitative score. *Staff were instructed not to complete that section because it was intended to be calculated automatically by Central Office as a part of our quality assurance process.* However, some supervisors missed that instruction and completed the entire form.

In order to address the issue, DAIL/VR has locked the final section of the form so supervisors cannot complete it in error. In December 2016, DAIL/VR conducted a data analysis of all the cases reviewed for the period April 2016 to September 2016. Based on the results of that analysis, DAIL/VR has assessed consistency of completion of the review process tool. Additional training or follow up with supervisors will occur as needed.

In September 2017, DAIL/VR will go live with the AWARE electronic case management system. AWARE has numerous automated features to support staff with case work compliance. It also includes a quality review feature which will allow DAIL/VR managers and supervisors to supervise casework much more effectively.

Scheduled Completion Date of Corrective Action Plan

Modifications to the review form and analysis of completed reviews were completed December 31, 2016.

The AWARE case management system is scheduled to go live in September 2017.

Contact for Corrective Action Plan

James Smith, DAIL/VR Budget & Policy Manager
Mike Mooradian, AHS Internal Audit Group

james.smith@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-026

U.S. Department of Health and Human Services

Program Name and CFDA Number

Race to the Top – Early Learning Challenge (CFDA #84.412)

Recommendation

We recommend that management within the Department for Children and Families and the Department of Health review their existing procedures for reviewing and approving invoices for payment and implement internal controls to ensure that all invoices are properly reviewed and approved prior to payment. The approval process should include documentation of the review of supporting information to ensure that the services rendered are consistent with the services outlined within its existing grant or contract with the vendor.

Corrective Action Plan

Department for Children and Families (DCF)

The DCF Business Office has updated their Accounts Payable processing procedures to ensure invoices include approval dates and signatures prior to processing for payment.

The Child Development Division (CDD) will revise its payment request forms to include a section for narrative descriptions of the services and/or expenditures being invoiced. The Division's payment processing team will ensure adequate descriptions and supporting documentation per the terms of the grant/contract are included with the payment requests and that documented approval of the documentation submitted by an authorized representative for the division has been received and recorded prior to submitting an invoice for payment to the DCF Business Office.

To ensure more accurate and timely payments, and the review and retention of supporting documents and reports, CDD has implemented the following:

- 1) Created a centralized collection point for receipt, review and approval of all CDD contract and grant invoices and reports;
- 2) Established a Contract & Grant Payment Processing Team to perform quality assurance reviews of all invoices and reports prior to processing
- 3) Implemented a systematic and documented process for the review and approval of all invoices and reports for completeness and accuracy; and
- 4) Instituted certification requirements for all invoices and reports that will provide documented evidence of review and approval.

Vermont Department of Health (VDH)

VDH agrees with the Recommendation that the process for approval of invoices should ensure that the services rendered for the period covered by the invoice are consistent with the grant award. The "MCH Grants and Contracts Procedure" was drafted in 2014 and last revised in 2016. It requires that the program manager sign and date an invoice prior to payment, but it does not define the review process that precedes the signature. We will revise this procedure to clarify that the program manager's signature indicates an assurance that there exists, either on the invoice or in documentation in the grant file, an adequate summary of expenditures, services and/or deliverables provided during the period, consistent with the Work Statement.

Scheduled Completion Date of Corrective Action Plan

Department for Children and Families (DCF)

Accounts Payable Processing Procedure was implemented on January 1, 2017.

Revised Payment Request Forms will be implemented April 1, 2017

Revisions to payment processing and document retention was implemented on February 1, 2017

Vermont Department of Health (VDH)

Revision to the MCH Grants and Contract Procedure will be revised by March 31, 2017 and discussed with program managers by April 15, 2017.

Contact for Corrective Action Plan

Timothy Cutler, Operations Director
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group

timothy.cutler@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Vermont Department of Health (VDH)

Patrick Burke, VDH Financial Manager
Mike Mooradian, AHS Internal Audit Group

patrick.burke@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-027

U.S. Department of Health and Human Services

Program Name and CFDA Number

Race to the Top – Early Learning Challenge (CFDA #84.412)

Recommendation

We recommend the Department for Children and Families and the Agency of Education review their existing policies and procedures to ensure subrecipient monitoring procedures in place are documented and outline the types of programmatic and fiscal monitoring to be performed. These procedures should also ensure that the results of monitoring activities are properly documented. In addition, review controls should be implemented to ensure that all subrecipient grant agreements are complete and accurate before being entered into with the grantee.

Corrective Action Plan

Department for Children and Families

To ensure more accurate and timely payments, and the review and retention of supporting documents and reports, the Child Development Division (CDD) has implemented the following:

- Created a centralized collection point for receipt, review and approval of all CDD contract and grant invoices and reports;
- Established a Contract & Grant Payment Processing Team to perform quality assurance reviews of all invoices and reports prior to processing
- Implemented a systematic and documented process for the review and approval of all invoices and reports for completeness and accuracy; and
- Instituted certification requirements for all invoices and reports that will provide documented evidence of review and approval.

Further, CDD will develop and implement new programmatic and fiscal monitoring process for all grantees using a risk based approach. The CDD Contracts and Grants Team, in collaboration with individual program managers, will perform an updated risk assessment of all active grantees.

The Department will also update its procedures and implement a checklist for all required award identification information to be reviewed by the grants and contracts unit director prior to moving agreements forward for signature to ensure that grant agreements are complete and accurate before being entered into with the grantee. And the Agency of Human Services Internal Audit Group will modify their single audit report review checklist to include reviewing the CFDA name along with the CFDA number and will follow-up with subrecipients if necessary.

Agency of Education

The Agency acknowledges that fiscal and programmatic monitoring did not occur for these grants. Unfortunately, staff shortages – including a dedicated manager for this program – resulted in the lack of appropriate monitoring. In order to correct this going forward, the Agency's Early Education Team, with technical assistance from our Federal Fiscal Monitoring Team, will develop a risk assessment tool and a protocol that includes combined fiscal and program monitoring. The Team will develop written procedures that ensure the highest-risk sub-grantees are monitored each fiscal year through either desk monitoring or site visits. These procedures will include both reviewing expenditures for allowability under the federal regulations, and verifying programmatic activities against their Scope of Work.

Scheduled Completion Date of Corrective Action Plan

Department for Children and Families

The implementation of the new programmatic and fiscal monitoring process will commence as follows:

- Documented review of progress and financial reports submitted in accordance with the terms and conditions of the grant was completed January 1, 2017
- Updated risk assessments of all active grantees will be completed by no later than May 1, 2017.
- CDD will create a schedule for on-site visits to all grantees rated a medium or high risk by no later than June 1, 2017 and site visits will begin no later than July 1, 2017.

Award identification procedures will be updated by June 30, 2017

The single audit review checklist will be updated by March 31, 2017

Agency of Education

The new risk assessment tool will be developed in April 2017 to be used in selecting our FY2017 monitoring list. Fiscal and programmatic monitoring will be completed by June 30, 2017.

Contact for Corrective Action Plan

Department for Children and Families

Timothy Cutler, Operations Director
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group

timothy.cutler@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Agency of Education

Karin Edwards, Division Director
Kate Rogers, Education Programs Manager

karin.edwards@vermont.gov
kate.rogers@vermont.gov

Finding 2016-028

U.S. Department of Health and Human Services

Program Name and CFDA Number

TANF Cluster:

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)

Questioned Costs

\$3,954

Recommendation

We recommend that the Department implement procedures to ensure it has appropriate review controls over benefit payments made on behalf of participants receiving residential services or who have been sanctioned in order to ensure that the participant's monthly benefit payment is accurate.

Corrective Action Plan

Finding A:

To prevent a similar error from occurring, the Department will highlight the sanction process in the initial Reach Up worker training which is offered quarterly. The Department will also implement a Reach Up Refresher Training, and the sanction process will be included to ensure that all Reach Up Benefit Program Specialists are familiar with how sanction benefits are issued in the ACCESS system. While the training is being developed, the Reach Up Assistant Operations team will attend the Eligibility Supervisors Meeting which will highlight the sanction process. Eligibility Supervisors will discuss the sanction process at their district team meeting.

Quality Reviews will be completed on twelve (12) Sanction Cases, each month. The Quality Review will check for sanction authorization forms (606) and budgetary changes.

Finding B:

Reach Up Eligibility Supervisors and Benefit Programs Specialists primarily assigned to process Lund cases will receive a training and detailed procedures to ensure that the ACCESS system is correctly updated when a participant is admitted to or discharged from the Lund residential program. In addition, the Benefit Programs Specialists primarily assigned to process Lund cases will have a Desk Aid Guide that they will use each time they work on a Lund Reach Up case to ensure that all tasks are correctly completed. The procedure and desk aid will include controls to prevent duplicate or over-payments from occurring.

Previously, Lund cases had a warning, asking all employees to contact the Benefit Program Specialists primarily assigned to process Lund cases before any changes were made to the case. This warning has been replaced with a control to lock down all Lund cases to two (2) workers in the Burlington District Office only. Supervisors can set and change the restriction to the case at any time, however, while the participant is at Lund, the case will stay under restriction and all changes must be reviewed by the Benefit Program Specialists primarily assigned to process Lund cases.

The Department will be researching the questioned costs noted by the auditor and will make any needed corrections in the TANF federal reporting by June 30, 2017.

Scheduled Completion Date of Corrective Action Plan

A: Next Reach Up Training May 31, 2017

New Refresher Training to be completed by September 29, 2017.

Eligibility Supervisor's Meeting – April 2017.

The Quality Review Analysis for sanction cases will begin on May 1, 2017.

B: Training will be conducted and the procedure and desk aid will be developed by March 31, 2017.
Corrections to the TANF federal reporting will be completed by June 30, 2017.

Contact for Corrective Action Plan

Monika Madaras, Benefit Program Assistant Administrator
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group

monika.madaras@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-029

U.S. Department of Health and Human Services

Program Name and CFDA Number

TANF Cluster:

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)

Recommendation

We recommend that the Department review its procedures and implement sufficient controls to ensure that all required documentation is completed and approved prior to benefits being sanctioned. We further recommend that supporting documentation be maintained for all participant sanctions.

Corrective Action Plan

Departmental review of the exceptions noted in this finding determined that they occurred in one district office and we will be reviewing proper protocols for sanctioning cases and retaining paperwork with staff of that office per existing procedures. The Supervisory Case Review form (242CM-RU) will be updated to verify that the 606 form has been completed, signed, dated, and that a request for budgetary change has been made.

In the 2016 Fiscal Year, the Reach Up Assistant Operations Staff (AOPS) began visiting the District Offices to review two (2) case files per case manager. The Reach Up AOPS team meets with each case manager to talk about areas that would need improvement. In addition, the Reach Up AOPS team also meets with each district's Reach Up Supervisor to provide feedback about the case manager's work and suggested next steps.

Scheduled Completion Date of Corrective Action Plan

The Supervisory Case Review form (242CM-RU) will be updated by April 1, 2017.

The Central Office Assistant Operations staff has started to schedule ongoing annual District office visits. The visits are scheduled out tentatively to allow flexibility in schedules and continue into Fiscal Year 2018. Every district will have been visited by September 30, 2017.

A review of standing procedures and documentation will take place by May 31, 2017 for the specific district office staff associated with this finding.

Contact for Corrective Action Plan

Monika Madaras, Benefit Program Assistant Administrator
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group

monika.madaras@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Finding 2013-030

U.S. Department of Health and Human Services

Program Name and CFDA Number

Low Income Home Energy Assistance (CFDA #93.568)

Recommendation

We recommend that ESD review its internal policies and procedures and verify that these policies and procedures are sufficiently documented to enable the continuity of its internal control procedures as staff turnover occurs.

Corrective Action Plan

The Department recognizes the need for a process to audit a sample of our certified fuel dealers each season. As such, Fuel Program Staff recently met with the AHS Internal Audit Group for input and guidance on constructing an audit process that would ensure that federal funds are spent appropriately and in accordance with state and federal guidelines and state pricing agreement requirements. As a result, a comprehensive procedure is in the process of being drafted in which a sample of cases from multiple dealers will be reviewed. The process will include the requirement that fuel dealers provide a bill of sale for each client selected, whose accounts will be reviewed by the fuel team to ensure that the price charged to the client takes into account the required state pricing discounts, and that the total billed matches what was reported to the State on the Refund and Consumption Report. If inconsistencies are found, the State will include procedures for the dealer to develop a corrective action plan which the State will follow-up on in the successive fuel season. This written procedure will ensure that fuel vendor audits are conducted consistently each year. Responsibility for completion of the review of fuel vendor data lies with the ESD Fuel Director. The AHS Internal Audit Group (IAG) will monitor for completion of the report at the end of the fiscal year until it has received notification from the Fuel Director or from a member of the Fuel Program Staff that it has been completed and is available for review.

Scheduled Completion Date of Corrective Action Plan

Procedure in place by March 31, 2017
Sample testing completed by September 30, 2017 for FFY17

Contact for Corrective Action Plan

Bobby Arnell, FUEL Program Director
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group

bobby.arnell@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Finding 2013-031

U.S. Department of Health and Human Services

Program Name and CFDA Number

Low Income Home Energy Assistance (CFDA #93.568)

Questioned Costs

Not determinable

Recommendation

We recommend that the Department review its existing procedures and implement controls to ensure that federal funds are used only for benefit payments that are allowable and that federal funds are only used to provide benefits to participants that meet federal eligibility requirements. The Department should also review its existing monitoring procedures related to cash benefit payment to EBT cards to ensure there are sufficient monitoring procedures are in place to verify that participants have used the funds for allowable purposes.

Corrective Action Plan

Households who receive a cash benefit for the purchase of wood or pellets receive a notice of their benefit, which also informs the household to keep a receipt of the wood that they purchase using the benefit. The Department will develop a procedure for auditing a sample of cases to ensure that the benefit provided to these households was spent on the intended fuel source.

The Department will be funding the entire caseload that receives a nominal \$21 fuel benefit with solely state funds. The Department will also ensure that these cases are adequately tracked and captured to ensure that every nominal case was funded solely with State funds by refining an existing data extract, and this work is currently underway. However, it should be noted that by using a similar data extract in State Fiscal Year 2016 (SFY16), the State attributed all funding for households that received a \$21 benefit to State funds, and the State was able to correctly identify all but one household in the auditor's sample.

IT is currently in the process of making changes to our LIHEAP extract in order to accurately track and catalogue all LIHEAP participants and their income, represented as a percentage of FPL. This extract will enable the program to accurately identify, on a quarterly basis, all households that are eligible for federal funding streams and ensure that state funds are only used for households that are ineligible for federal funding.

Scheduled Completion Date of Corrective Action Plan

Audit procedure for wood and pellet households will be in place by March 31, 2017. Any needed audit follow-up work will be done by September 30, 2017.

IT enhancements to accurately identify and track applicable households are currently in process and will be completed by June 30, 2017.

Contact for Corrective Action Plan

Bobby Arnell, FUEL Program Director
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group

bobby.arnell@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-032

U.S. Department of Health and Human Services

Program Name and CFDA Number

Low Income Home Energy Assistance (CFDA #93.568)

Recommendation

We recommend the Department review its existing procedures for preparing the federal report to ensure that the data contained within the report is complete, accurate and is properly supported by sufficient documentation.

Corrective Action Plan

- A. The Department for Children and Families, Information Systems Division has been working on modifying the Fuel Program Extract that pulls data from the ACCESS SPSS database. These modifications address this finding and others, and involve being able to query the exact number of households whose gross income falls within set parameters. These parameters include all households that are at or below 150% of the federal poverty level, as well as being able to calculate total households whose gross incomes fall within an ad hoc set of FPL percentages, such as all households that have received assistance that are at 75% of FPL, or all households that received assistance and whose gross incomes are between 75% and 100% of FPL.
- B. The conditions found in Bullet B, correspond to the integrity of the data that is submitted on the Federal Household Report – Long Form. Each sub-item will be addressed separately below. However, the majority of the findings plan to be resolved by (1) instituting the more robust data extract that is outlined in Bullet A of this Corrective Action Plan, as well as (2) instituting procedures with the Process and Performance Unit, wherein the data extract that is used at the time to input data into the Federal Household Report Form will be saved and will contain case-specific information for each household as necessary.
 1. The discrepancy reported in Section II, line 1, column D will be addressed through corrective action described in Bullet A of this Corrective Action Plan. By using an improved fuel extract, with procedures in place to save data reported from that extract, the Department hopes to avoid further data discrepancies in the future.
 2. The data discrepancies outlined on line 3b of Sections II and III of the Federal Household Report Form correspond to crisis assistance data that is reported on and submitted by the Community Action Agencies. It is believed that these data discrepancies may have been the result of late reporting by the Community Action Agencies, or confusion regarding inconsistent reporting forms for each Community Action Agency. As a result, procedures and reporting requirements associated with crisis assistance were changed to avoid these types of errors in the future:
 - a. Report forms have been changed for all Community Action Agencies for FFY 2017. The report form is the same for every agency, and is formatted to mimic the federal report.
 - b. The DCF Grants and Contracts Unit has been tasked with administration of the LIHEAP grants, and will be ensuring that reporting is submitted on time, accurately, and saved on the shared drive.
 3. The information reported in all columns for Section III, line 1 will be accurately determined by the modified extract discussed in Bullet A of this Corrective Action Plan, and the data reported from that extract will be saved on a shared drive for later verification during successive audits.
 4. Section IV involves data on total number of applicant households. The number of applicant households will be determined by utilizing the same modified fuel extract outlined in Bullet A of this Corrective Action Plan, and the data will be saved for verification during successive audits.

Scheduled Completion Date of Corrective Action Plan

A, B.1, B.3 & B.4: Needed IT enhancements to the fuel extract are currently in process and will be completed by June 30, 2017.

B.2: Completed September 23, 2016

Contact for Corrective Action Plan

Bobby Arnell, FUEL Program Director
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group

bobby.arnell@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-033

U.S. Department of Health and Human Services

Program Name and CFDA Number

Low Income Home Energy Assistance (CFDA #93.568)

Recommendation

We recommend the Department review its existing policies and procedures to ensure that risk assessment procedures are performed timely over subrecipients. These procedures should ensure that the subrecipient monitoring procedures that will be performed are linked to the specific risks identified as part of the risk assessment process.

Corrective Action Plan

The Department will ensure that Risk Assessments are completed for each of the subrecipient agencies that receive federal LIHEAP funding. A monitoring plan has been developed by the Economic Services Grants and Contracts Unit, and will be used in FFY 2017 to review and monitor LIHEAP subrecipient agencies commensurate with their assessed risk. For those agencies that are deemed to need a corrective action plan, the Department will conduct a review the following year to ensure at the corrective actions have been properly implemented.

Scheduled Completion Date of Corrective Action Plan

Risk Assessments for LIHEAP subrecipient agencies will be conducted prior to executing grant amendments in FFY 2017 and will be completed by June 30, 2017. Monitoring will be completed by September 30, 2017.

Contact for Corrective Action Plan

Bobby Arnell, FUEL Program Director
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group

bobby.arnell@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-034

U.S. Department of Health and Human Services

Program Name and CFDA Number

Foster Care-Title IV-E (CFDA #93.658)

Recommendation

We recommend that the Department review its existing controls and procedures to ensure that adequate documentation is maintained for all providers to validate the provider's training level to ensure that rates paid to providers above the base rate are accurate. We further recommend that the Department review its procedures for developing rates for contracts with residential care facilities to ensure that the rates utilized within the contracts separately identify the room and board component contained within the rate so that only those costs that are allowable are charged to the program.

Corrective Action Plan

Condition A:

In 2014 there was a review and revision of FSD Policy 93 on Resource Caregiver Training to include more specific direction on how training is to be documented; and a revision of Form 690 to require documentation of how training requirements have been met. In 2015 the corrective action plan revisited the policy to include language that grandfathered foster parents who achieved higher level status prior to the policy effective date. The current corrective action plan will further enhance these actions by providing the following actions/controls:

1. On at least a yearly basis the Director of Residential Licensing & Special Investigations (RLSI) in concert with the System of Care Foster Care Manager will revisit and clarify policy and procedure expectations with the district office Resource Coordinators.
2. RLSI will provide, on a quarterly basis, a report of level 2 and 3 homes to the Resource Coordinators and District Directors to facilitate review of documentation as required by policy 93. As stated in the policy, if there is a lack of training documentation, staff will submit a form to the DCF Business Office to reduce the amount of the foster care payment.

Condition B:

The current corrective action plan will take the following actions to ensure the appropriate controls for charging the appropriate funding source:

1. The Revenue Enhancement Director will verify with the Business Office that all out of state residential programs are currently coded correctly in the SSMIS system to draw down federal funds appropriately.
2. On a quarterly basis, the Revenue Enhancement Director will review payments made on behalf of a sample of children placed in out of state residential facilities to ensure that payments and funding sources in the SSMIS system match the funding letters. If errors are found in the payments in the sample, payments will be checked for the entire population of children placed in out of state residential facilities. Additionally, if errors are found, the Revenue Enhancement Director will work with the Business Office to correct the coding and to refund any funds that were drawn in error.
3. All new contracts and amendments will be adjusted to clearly delineate the rates and the AA-14 will reflect the expected separation of funding sources based upon the type of service provided.

Scheduled Completion Date of Corrective Action Plan

June 30, 2017

Contact for Corrective Action Plan

Heather McLain, Revenue Enhancement Director
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group

heather.mclain@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-035

U.S. Department of Health and Human Services

Program Name and CFDA Number

Foster Care-Title IV-E (CFDA #93.658)

Question Costs

\$870,071

Recommendation

We recommend that the Department review its controls and procedures over the cost allocation and federal reporting process to ensure that costs are allocated to the correct federal program.

Corrective Action Plan

The DCF cost allocation plan was not configured correctly for codes pertaining to Adoption services which are allowed for Child Subsidy IV-E payments. The program coding for these questioned services was corrected as of 9/30/2016 and the costs are now directed to the correct federal funding column on the IV-E Adoption report. Corrections for QE 09/30/14 through 6/30/16 were also reported on the 9/30/16 Foster care and Adoption IVE federal reports. AHS will work with ACF to properly reclassify the remaining quarters no later than 9/30/17. DCF is currently in the process of reviewing and updating the cost allocation program for its IVE programs to clearly identify the proper federal report lines and columns on the cost allocation earnings report. This review is of all expenditures hitting the final receivers and will allow DCF to identify and correct any misapplied costs, should they exist. Going forward, DCF Business Office staff will meet with the relevant program staff to review costs incurred and federal claiming to ensure all costs are properly bucketed and claimed on the proper federal report and federal reporting line.

Scheduled Completion Date of Corrective Action Plan

Cost Allocation and questioned cost adjustments from QE 09/30/2014: September 30, 2016
Correction of federal claiming QE 03/31/2005 through QE 06/30/2014 – September 30, 2017
Review of federal report columns and program charges – June 30, 2017
Ongoing review with program staff – June 30, 2017

Contact for Corrective Action Plan

Heather McLain, Revenue Enhancement Director
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group

heather.mclain@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-036

U.S. Department of Health and Human Services

Program Name and CFDA Number

Foster Care-Title IV-E (CFDA #93.658)

Questioned Costs

\$162,000

Recommendation

We recommend that the Department review its existing cash management policy and ensure that all amounts that have been inadvertently overdrawn are refunded timely to the federal government in accordance with the State's cash management agreement.

Corrective Action Plan

DCF has a procedure in place to spot-check eligibility when system changes occur; this procedure will be further refined to take place within 30 days of the occurrence.

In addition, in order to ensure federal reports and draws are adjusted in a timely manner when necessary, DCF program staff and Business Office staff will work together to create a procedure governing communications with the Business Office when changes/errors are identified.

Scheduled Completion Date of Corrective Action Plan

Return of \$ 163,000 in questioned costs – December 31, 2016
Procedure to affirm adjustment of funds – June 30, 2017

Contact for Corrective Action Plan

Heather McLain, Revenue Enhancement Director
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group

heather.mclain@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-037

U.S. Department of Health and Human Services

Program Name and CFDA Number

Adoption Assistance (CFDA #93.659)

Recommendation

We recommend the Vermont Department for Children and Families review its procedures to ensure adoption subsidy daily rates contained within the adoption subsidy agreements are established in accordance with federal requirements and fully documented within the case file.

Corrective Action Plan

The Department for Children and Families (DCF) - Family Services Division (FSD) will review all IV-E adoption assistance files during Fiscal Year 2017 to identify cases where the set rate may be greater than the foster care maintenance payment rate due to the inclusion of payment for services paid by sources other than IV-E during the time the child was in foster care. All cases with rates which are set without clear articulation will be subject to the addition of documentation of how the rate was set. FSD will work to change payment rates via amended agreements with adopted parents and/or separate payments so that partial payments are made to other funding sources within the adoption assistance payroll structure in cases where this issue is found in our internal audit. If the Children's Bureau's final interpretation is that the funds need to be returned to the Federal IV-E program, FSD will work with the DCF Business Office to do this.

For adoption assistance cases moving forward, consideration of payments made via other funding sources while a child is in foster care will not be included in IV-E rates charged to the adoption assistance program if deemed inappropriate by the Children's Bureau.

Scheduled Completion Date of Corrective Action Plan

June 30, 2017

Contact for Corrective Action Plan

Gillie Hopkins, DCF Permanency Planning Program Manager
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group

gillie.hopkins@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-038

U.S. Department of Health and Human Services

Program Name and CFDA Number

Adoption Assistance (CFDA #93.659)

Recommendation

We recommend that the Department review the internal control deficiencies related to the SSMIS system identified during the period ending June 30, 2012 and continue to take appropriate actions to ensure that all deficiencies related to access to program data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the SSMIS system. We also recommend that the Department review its existing manual procedures to review costs charged to the Adoption Assistance program and implement written procedures to ensure that all manual adjustments are accurate and properly reviewed.

Corrective Action Plan

- A.) The Department for Children and Families (DCF) agrees with this finding as it pertains to the SSMIS system. DCF has requested IT staff to work on building a separate module for children in the Guardianship Assistance Program (GAP) so that Adoption Subsidy coding is not used and that GAP payments are tracked separately. Until this module has been completed, DCF shall continue to utilize the manual spreadsheet to capture all GAP participants. Although it was not shared with the auditors during their testwork, DCF has been using a procedure to ensure the accuracy of the spreadsheet for several years and is confident with it. This procedure entails quarterly communications between the GAP program administrator at Lund Family Services (the program provider) and the DCF Foster-Care/Adoption payroll manager. Exchange of information also occurs whenever there is a change in participants. The administrator provides a list of GAP participants (i.e. placement forms) to the payroll manager. The payroll manager records the participants on a spreadsheet and keeps the lists on file. The updated spreadsheet is used to identify payments for GAP in the system in order to make adjustments to total Adoption payments. DCF will update its process memo for future audits to ensure auditors are aware of this procedure in the future.
- B.) The department agrees with this finding and recognizes it as human error. There is a procedure in place to assure that manual journal entries are reviewed by a staff in the DCF Accounts Payable office. To bolster that procedure, staff in the DCF Cost Allocation Group shall further review manual journal entries.
- C.) The department agrees with this finding. DCF has requested IT staff to work on changing the SSMIS system so that under/over payment due to 6th and 13th birthdays do not occur. The system mistakenly makes a change for these events as it coincides with increases to Foster Care placements at those ages. We will monitor the error in payment for the birthday events until the system is fixed.

As there are over 1,875 IV-E participants in the program, doing a manual review each month for birthdays occurring for these two events is impractical. Also, the rate only affects these two days as Adoption rates reset the next day, unlike the Foster Care rates. Adoption payment is based on paying an average of 30.42 days for a monthly rate. Foster Care payments, on the other hand, are based on number of actual days. We plan to conduct monitoring of the error by sampling the total Adoption clients for a six-month period, checking for 6th and 13th birthday occurrences during that period. Errors identified from that six-month period will be corrected at that time.

Scheduled Completion Date of Corrective Action Plan

A & C: IT fixes to the SSMIS system – to be completed by June 30, 2017.

B: Manual procedures by DCF Business/Payroll office – already in place.

Contact for Corrective Action Plan

Gillie Hopkins, DCF Permanency Planning Program Manager
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group

gillie.hopkins@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov

Finding 2016-039

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

State Medicaid Fraud Control Units (CFDA #93.775)
State Survey and Certification of Healthcare Providers and Suppliers (Title XVIII) Medicare (CFDA #93.777)
Medical Assistance Program (CFDA #93.778)

Recommendation

We recommend that the Department review its procedures over obtaining and validating documentation reported by applicants, as it is used to determine Medicaid eligibility. This process of supervisory or quality control review would ensure that all information is correct, thus supporting an applicant's eligibility. The collection and verification of accurate information would make certain that the State is in compliance with all federal regulations. In addition, we recommend that the Department review the internal control deficiencies related to the ACCESS system identified during the period ending June 30, 2012 and continue to take appropriate actions to ensure that all deficiencies related to access to program data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the ACCESS system.

Corrective Action Plan

Department of Vermont Health Access (DVHA) Health Care Enrollment & Eligibility Unit (HAEEU) has identified a designated resource who will review and update the internal Quality Control procedures on an ongoing basis. These procedures will ensure documentation reported by individuals is properly validated to support the accuracy of the eligibility decision. Monthly reviews will be conducted using the PERM PILOT model and include a random sample of all healthcare programs.

The Department for Children and Families (DCF) is responsible for IT controls within the ACCESS system. As of November 1, 2016, implementation of corrective actions has already begun to take place within DCF Information Services Division to address the deficiencies identified. DCF recently implemented several new IT-related policies, including security policies. These policies are DCF-specific and work in conjunction with the AHS policies.

Scheduled Completion Date of Corrective Plan

The review and implementation of the internal QC process by July 2017

DCF IT procedures and controls will be fully implemented by April 30, 2017

Contact for Corrective Action Plan

Jenny McAdam, Health Care Assistant Administrator-Audits
Cassandra Madison, Health Care Eligibility & Enrollment Director
Anne Petrow, DVHA Program Compliance and Oversight Director
Dan McDevitt, DCF Audit Director
Mike Mooradian, AHS Internal Audit Group
Jack Green, DVHA Deputy Chief Information Security Officer
Nik Znamenskis, DII Security
Richard DiMatteo, DCF Deputy IT Director

jenny.mcadam@vermont.gov
cassandra.madison@vermont.gov
anne.petrow@vermont.gov
daniel.mcdevitt@vermont.gov
michael.mooradian@vermont.gov
jack.green@vermont.gov
nik.znamenskis@vermont.gov
richard.dimatteo@vermont.gov

Finding 2016-040

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Healthcare Providers and Suppliers (Title XVIII) Medicare (CFDA #93.777)

Medical Assistance Program (CFDA #93.778)

Recommendation

We recommend that DVHA review its policies and procedures in place over prior authorizations and implement procedures to ensure that services are properly approved and meet all the requirements to be approved.

Corrective Action Plan

Children's Personal Care Services (CPCS) will review and update forms/processes/language to better define non-clinical budget changes. CPCS will also undergo a program review, to ensure ongoing quality improvement and program integrity.

Scheduled Completion Date of Corrective Plan

Review and update of forms – May 1, 2017

Program review: April 1, 2017 – December 31, 2017

Contact for Corrective Action Plan

Mike Mooradian, AHS Internal Audit Group

Adam Poulin, VDH Program Administrator

Anne Petrow, DVHA Program Compliance and Oversight Director

michael.mooradian@vermont.gov

adam.poulin@vermont.gov

anne.petrow@vermont.gov

Finding 2016-041

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Healthcare Providers and Suppliers (Title XVIII) Medicare (CFDA #93.777)

Medical Assistance Program (CFDA #93.778)

Recommendation

We recommend that the Agency of Human Services review its granting procedures to ensure that grant awards are accurately executed. We also recommend that the Agency review its subrecipient monitoring procedures and implement the necessary policies and procedures to help ensure that subrecipients are monitored in accordance with federal regulations.

Corrective Action Plan

The Agency of Human Services (AHS) revised and issued a new Services Procurement Grant Contracting Plan for all AHS Departments which includes further clarification requiring departments to complete a *Subrecipient – Procurement Determination* form prior to writing and executing an agreement. This plan also requires procurement agreements to use a unique chartfield in the VISION accounting system separate from that used for a subrecipient agreement. Furthermore, any agreements issued after July 1, 2017 will not be issued as procurement grants; AHS will identify agreements as either subgrants or contracts based on the substance of the relationship.

All AHS departments will review and update their internal procedures for determining the proper form for all agreements to ensure they are issued appropriately with the required data elements, risk assessments, and monitoring plans, as needed.

The Department of Mental Health (DMH) will revise Designated Agency re-designation procedures. DMH will create templates for reports, letters, and documentation and standardize the documentation storage process to ensure deadlines and follow up actions are complete and timely.

Scheduled Completion Date of Corrective Action Plan

AHS Procurement Grant and Contracting Plan: May 15, 2016 effective July 1, 2016

Departmental review and update of procedures: June 30, 2017

DMH to update Designation procedure and forms: July 1, 2017

Eliminating use of Procurement Grants: July 1, 2017

Contact for Corrective Action Plan

Mike Mooradian, AHS Internal Audit Group
Jill Gould, AHS Financial Director

michael.mooradian@vermont.gov
jill.gould@vermont.gov

Finding 2016-042

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Healthcare Providers and Suppliers (Title XVIII) Medicare (CFDA #93.777)

Medical Assistance Program (CFDA #93.778)

Recommendation

We recommend that the State review its policies and procedures over ADP security review and implement procedures to help ensure that all reviews are performed timely and are properly documented.

Corrective Action Plan

The Department for Children and Families (DCF) is responsible for the IT controls surrounding the ACCESS system and the Department of Vermont Health Access (DVHA) is responsible for the security review of the MMIS system. Both Departments have recently developed processes to ensure biennial reviews are conducted timely and are properly documented. A MMIS security review was completed in March 2017 and an ACCESS security review is targeted for later in 2017.

Scheduled Completion Date of Corrective Plan

Process for biennial ADP system security reviews and proper documentation March 10, 2017

The ACCESS security review is targeted for December 31, 2017

The MMIS security review was completed on March 10, 2017

Contact for Corrective Action Plan

Anne Petrow, DVHA Program Compliance and Oversight Director

Dan McDevitt, DCF Audit Director

Mike Mooradian, AHS Internal Audit Group

Jack Green, DVHA Deputy Chief Information Security Officer

Nik Znamenskis, DII Security

Richard DiMatteo, DCF Deputy IT Director

anne.petrow@vermont.gov

daniel.mcdevitt@vermont.gov

michael.mooradian@vermont.gov

jack.green@vermont.gov

nik.znamenskis@vermont.gov

richard.dimatteo@vermont.gov

Finding 2016-043

U.S. Department of Homeland Security

Program Name and CFDA Number

Homeland Security Grant Program (CFDA #97.067)

Recommendation

We recommend that the Department continue to review its existing policies and procedures related to the equipment management process and continue to implement mechanisms to ensure that all equipment is properly identified and tagged. The procedures should include the development of a process to track all equipment so its physical location is updated on a timely basis.

Corrective Action Plan

In our 2015 Management Response and CAP, we indicated that we were hiring a contractor to perform a full physical inventory and once complete we would reconcile our inventory and implement new procedures to ensure our inventory is kept current going forward. We are continuing to follow that plan and our inventory contractor completed the physical inventory in June 2016 and the final inventory report was received in August of 2016.

The Department has also implemented new procedures and designated "Asset Custodians" for each of our statewide locations. These new custodians will receive training in January of 2017 and will work with our Procurement Unit to reconcile and correct our physical inventory report and update the VISION Asset Module. The Department is also implementing a new bar-coding system for recording new assets and revisions to asset locations. This new system along with our comprehensive new procedure will help us to better ensure the integrity of our asset inventory going forward.

Scheduled Completion Date of Corrective Action Plan

June 2017

Contact for Corrective Action Plan

Joanne Chadwick, Director of Administration

joanne.chadwick@vermont.gov