Report of the Vermont State Auditor

February 15, 2012

SUMMARY OF AUDIT FINDINGS – FY 2011

Thomas M. Salmon, CPA, CFE
Vermont State Auditor

Mission Statement

The mission of the State Auditor's Office is to be a catalyst for good government by promoting professional audits, financial training, efficiency and economy in government, and service to cities and towns.

THOMAS M. SALMON, CPA, CFE
STATE AUDITOR

STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

February 15, 2012

Members of the Senate Appropriations Committee
Members of the House Appropriations Committee

Dear Colleagues:

In accordance with 32 VSA §163, I am providing you with this summary of findings and recommendations resulting from financial, compliance and performance audits conducted or contracted by my office during fiscal year 2011 (FY 2011). The summary provides information about the number of findings per audit and the significance of the finding.

Generally, trends in the volume, type and significance of findings may be tracked for the Federal A-133 Compliance (A-133) audit and the Comprehensive Annual Financial Report (CAFR) audit. Specifically, with regard to A-133 audits, we note that certain federal programs administered by the State have received the same audit finding for multiple years which has resulted in increased audit fees. Also, for FY 2011, Vermont continued to receive significant federal funds as a result of the American Recovery and Reinvestment Act (ARRA), resulting in a continued high number of federal programs subject to A-133 audit requirements.

The subject matter for performance audits vary widely. As a result, it may not be possible to identify trends in findings applicable across state government. However, there may be occasions when multiple entities are audited based on the same performance audit objective, such as the tax increment financing district audits being conducted by my office in accordance with 32 VSA §5404a(l), and findings may have implications for the State as a whole.

My office conducts recommendation follow-up to determine the extent to which our recommendations are accepted and acted upon. The results of our follow-up are positive and show that agencies had implemented 46% and 69% of recommendations contained in reports issued during 2009 and 2007, respectively.

Please contact me with any questions as. I would be pleased to provide further information.

Sincerely,

Thomas M. Salmon, CPA, CFE

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Vermont State Auditor

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Abbreviations

A-133	Federal A-133 Compliance Audit
ARRA	American Recovery and Reinvestment Act
CAFR	Comprehensive Annual Financial Report
FY	Fiscal year

Introduction

The State Auditor's Office has a five-year contract with KPMG to perform both the audit of the Comprehensive Annual Financial Report (CAFR) and the Federal A-133 Compliance audit (A-133) through FY 2012. This contract allows the office to focus greater staff resources on performance audits and special reviews to assess the efficiency and effectiveness of the programs and operations of state government. Although the utilization of staff audit resources is primarily focused on performance audits, we continue to contribute the equivalent of a staff year to the performance of the CAFR and A-133 audits to keep costs down. KPMG bears the overall responsibility for these audits and contributes the bulk of the staff time.

The objective of the annual A-133 audit is to review Vermont's compliance with applicable federal laws and regulations for certain significant federal programs, such as Medicaid. Historically, 15 to 18 programs are audited each year. However, with the receipt of significant federal funds under the American Recovery and Reinvestment Act (ARRA), there were additional de facto audit requirements, resulting in the inclusion of 30 programs in the FY2011 audit scope. The audit of FY 2011 reported 32 findings.[1]

The objective of the annual CAFR audit is to express an opinion on whether the state's financial statements are free of material misstatement and to report on the state's internal controls over financial reporting and compliance with certain provisions of laws and regulations. While the audit has been completed and an unqualified audit opinion[2] was issued in December 2011, the report on internal controls has not been finalized as of the date of this report. As a result, we are not able to report on the findings at this time. The internal control report will be available on the State Auditor's Office website by March 31, 2012 as part of the A-133 Compliance Audit report.

The terms material weakness and significant deficiency refer to the relative significance of a finding. See Figure 1 for descriptions of these terms.

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[1]The A-133 report for FY 2011 has been drafted and provided to management for comment, but not issued as of the date of this report.

[2] An unqualified audit opinion states that the financial statements are presented fairly and in conformance with generally accepted accounting principles.

Figure 1: Significance of Internal Control Findings

Summary of Control Deficiency Classifications		
Control Deficiency	Significant Deficiency	Material Weakness
A control deficiency 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 misstatements on a timely basis.	A control 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.	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.
Severity of Deficiency →		
• Not required to be reported in writing. • Effect of the deficiency is considered inconsequential.[1] • Likelihood of misstatement is remote.[2]	• Considers the potential for misstatement in the financial statements, not just on whether a misstatement has actually occurred. • Those significant deficiencies or material weaknesses not yet remediated must be communicated in writing to management and those charged with governance. • Even if the significant deficiency or material weakness were reported in the past, it must continue to be reported as long as those deficiencies continue to exist.	

[1] A misstatement is considered inconsequential if a reasonable person would conclude, after considering the possibility of further undetected misstatements, that the misstatement, either individually or when aggregated with other misstatements, would be clearly immaterial to the financial statements.

[2]The chance of the future event(s) occurring is slight. Therefore, the likelihood of an event is "more than remote" when it is at least reasonably possible.

Source: Statement on Auditing Standards (SAS) 115 – Communicating Internal Control Related Matters Identified in an Audit.

One of the main focuses of the State Auditor's Office is to look at how well the state is providing its services. In other words, the office looks at the performance—both financial and nonfinancial—of a program, system, or organization. These types of audits are called performance audits. In FY 2011 our performance audits uncovered non-compliance with statutes and federal regulations, unreliable reports and data at the Department of Corrections and opportunities to achieve significant savings at a supervisory union. These audits were initiated based upon the office's assessment of risk areas within state government or as a result of legislative requirements. Recommendations from these audits totaled greater than 80.

Federal A-133 Compliance Audit Findings

Total programs audited for FY 2007 through 2011 have ranged from 14 to 32. With the exception of FY 2010 and FY 2011, the significant fluctuation in total programs has been driven by the number of programs with significant compliance findings that require a re-audit in subsequent years.[3] The large number of programs required to be audited in FY 2010 and FY 2011 was largely driven by the increased audit responsibility required by ARRA.[4] See Table 1 for a summary of the number of findings by program since FY 2007.

Table 1: Summary of A-133 Audit Findings by Agency/Department and Program FY 2007 through FY 2011

	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
Agency of Human Services	**12**	**15**	**22**	**17**	**16**
Medicaid	4	5	10	7	8
CDC Technical Assistance			1	2	1
Immunization Grants			2	2	2
Temporary Aid to Needy Families	1	1	1		
Supplemental Nutrition Assistance Program	1	1	2		
Child Support Enforcement	3	3	3	3	3
Childcare Development Fund					
Low Income Heating Assistance Program			1		1
Adoption Assistance	1	1	1		
Substance Abuse					1
Vocational Rehabilitation Grants to States	1	1	1	3	
Weatherization Assistance for Low-Income Persons		3			
ARRA Emergency Shelter Grants Program Homelessness Prevention and Rapid Rehousing	1				
Department of Labor	**3**	**4**	**3**		**2**
Unemployment Insurance		2	2		
Workforce Investment Act Cluster	2	1	1		2
Employment Services Cluster		1			
Labor Market Information Improvement Act	1				

[3]Absent significant audit findings, programs may be audited once every three years. Programs with significant audit findings must be re-audited until the finding is corrected. See Appendix I for analysis of re-audits since FY 2003.

[4]30 programs were audited for the periods ending 6/30/2011 and 6/30/2010. Most of these programs received ARRA funds.

	FY 2011	FY 2010	FY 2009	FY 2008	FY 2007
Agency of Transportation	**4**	**5**	**2**	**5**	**1**
Highway Planning & Construction		2		3	1
Disaster Recovery Public Assistance		2	2	2	
Formula Grants to Other Than Urban Areas		1			
High Speed Rail and Intercity Passenger Rail Service Capital Assistance Grants	4				
Agency of Natural Resources	**1**	**4**	**1**		
Drinking Water State Revolving Loan Funds	1	2	1		
Clean Water State Revolving Loan Funds		2			
Department of Education	**4**	**2**	**1**		**2**
State Fiscal Stabilization Fund	1	1			
Special Education Cluster	1				1
Vocational Education					1
Child Nutrition Cluster	1	1	1		
Title I, Part A Cluster	1				
Department of Public Service	**5**				
Energy Efficiency & Conservation Block Grant	3				
State Energy Program	2				
Department of the Military		**1**			
National Guard Military Operations and Maintenance Projects		1			
Department of Public Safety	**3**				
Homeland Security Cluster	1				
Public Assistance Grants	2				

Note: The final FY 2011 A-133 report has not been issued as of the date of this report. The FY 2011 numbers provided are based on a draft report.

For further information regarding these audits, please reference www.auditor.vermont.gov/audits/federal.

Comprehensive Annual Financial Report Audit Findings

Recurring audit findings have been an issue with the CAFR although the state has taken some corrective actions. Generally, the state has had audit findings related to the following issues:

1. a variety of significant audit adjustments indicating the risk associated with a decentralized accounting function;
2. IT general controls; and
3. the operation of the state's Global Commitment to Health section 1115 demonstration waiver.

See Table 2 for a summary of the number and significance of CAFR findings for fiscal years 2007 through 2011.

Table 2: Summary of the Number and Significance of CAFR Audit Findings FY 2007 through FY 2011

	FY 2011[1]	FY 2010	FY 2009	FY 2008 [2]	FY 2007
Material weaknesses	unknown	1	3	-	3
Significant deficiencies	unknown	1	1	4	9
Deficiencies	unknown	None	-	10	-
Total Findings	unknown	2	4	14	12

[1]The final FY 2011 internal control report associated with the CAFR audit has not been issued as of the date of this report.
[2] FY 2008 includes deficiencies reported in a management letter.

For further information regarding these audits, please reference www.auditor.vermont.gov/audits/cafr.

Performance Audit Findings

During FY 2011, the office issued 4 performance audits containing 83 recommendations. See Table 3 for a list of reports issued and the number of recommendations associated with each report.

Table 3: List of FY 2011 Performance Audits

Title	Entity	# of Recs.
Tax Increment Financing: City of Newport Generally Complied with Statutes, But Miscalculated Payments to State	City of Newport	5
Sex Offender Supervision: Corrections' Caseloads Were Largely in Accordance with Statutory Requirements, but Monitoring Tools Could Be Improved	Department of Corrections	5
Performance Audit of the Southwest Vermont Supervisory Union	Southwest Vermont Supervisory Union	70
Vermont Employment Growth Incentive: Performance Audit of Claims Review Process	Department of Taxes	3

Examples of the results of certain of these audits follows:

Sex Offender Supervision

Our performance audit report on the Department of Corrections' supervision of sex offenders demonstrated the importance of our use of generally accepted government auditing standards. One of our objectives in this audit, to assess whether the caseloads of probation and parole officers were within statutory limitations, relied heavily on reports from Corrections' system. Generally accepted government auditing standards require that we evaluate the data reliability of computer-based data used to draw conclusions. We found significant errors in the Corrections' reports used to determine caseloads. Most of our recommendations were targeted toward improving the accuracy of information in the Corrections' system and the usefulness of the applicable reports.

Vermont Employment Growth Incentive

We have issued several reports on the state's current and previous economic development programs. Our latest report was issued in August 2010. The focus of this audit was to look at the extent to which the Department of Taxes has controls and processes in place to ensure that claims, payments, and recoveries related to the Vermont Employment Growth Incentive program were accurate, complete, and timely. In brief, we found that the Department of Taxes had established some internal controls to ensure that claims and payments were accurate, complete, and timely; however, the claims process could benefit from additional written procedures and documented supervisory review.

For further information regarding the audits, please reference www.auditor.vermont.gov/audits/performance.

Appendix I

Table 4: Trends in the Number of Reaudits Associated with the A-133 Compliance Audit Since FY 2003

Year Audited	Required Program Audits[1]	Re-Audits[2]	Total Program Audits	Findings Reported	Findings Corrected
FY 2003	10	9	19	46	27
FY 2004	15	14	29	27	14
FY 2005	9	8	17	27	11
FY 2006	11	9	20	36	32
FY 2007	15	17	32	21	13
FY 2008	7	7	14	22	8
FY 2009	13	6	19	28	8
FY2010	30	11	30	31	8
FY2011[3]	30	19	30	32	TBD

[1]Required program audits are conducted for those programs exceeding 3% of total federal expenditures and have not been audited in the past two years. However, in FY 2010 and FY 2011, those programs that received ARRA funding and exceeded 3% of total federal expenditures required an audit, regardless of whether they were audited in the past two years.

[2]This represents the programs audited in the current year that, due to the significance of audit findings, will need to be audited in the subsequent year.

[3] The final FY 2011 A-133 report has not been issued as of the date of this report. The FY 2011 numbers are provided based on a draft report.