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, 2019, 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 19, 2019. Our report includes a reference to other auditors who audited the financial statements of certain funds and component units of the State, which represent the indicated percent of total assets and total revenues as described in our report on the State's financial statements and as presented in the following tables. Additionally, 100% of the information disclosed in Note V-E was also audited by other auditors. 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 other auditors.

	Percentage Audited by Other Auditors	
	Assets	**Revenues**
Governmental Activities	8%	1%
Business-type Activities	7%	52%
Aggregate Discretely Presented Component Units	100%	100%
Special Fund	1%	2%
Federal Revenue Fund	72%	6%
State Lottery Fund	100%	100%

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 have not been identified. However, as described in the accompanying schedule of findings and responses, we did identify 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 a 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 deficiency described in the accompanying schedule of findings and responses as item 2019-001 to be a material weakness.

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 deficiency described in the accompanying schedule of findings and responses as item 2019-002 to be a significant deficiency.

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*.

State of Vermont's Response to Findings

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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 them.

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.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Boston, Massachusetts
December 19, 2019

State of Vermont
Schedule of Findings and Management Responses
June 30, 2019

Material Weakness

Finding 2019-001 – Accounts Receivable – Department of Liquor Control

Condition
The State did not have controls properly implemented to ensure that accounts receivable for the Department of Liquor Control were recorded accurately.

Criteria
The State's Internal Controls Best Practice Series memorandum over accounts receivable indicates that departmental best practices include the maintenance of an accurate record of receivables transactions. The use of automated systems (e.g. VISION) should be utilized, where practical, to facilitate processing and reconciliation.

Context
The audit procedures performed over accounts receivable balances noted an overstatement of accounts receivable of approximately $3,513,000 due to a timing difference between the receipt of funds and adjustment of the accounts receivable. The audit procedures also identified the related allowance for uncollectible accounts was overstated by $708,000 due to the improper inclusion of prior year credit card receipts accruals in the unadjusted allowance.

Effect
The State recorded adjustments to correct both the accounts receivable and allowance for uncollectible accounts.

Cause
The State's internal controls surrounding the recording of accounts receivable and allowance for uncollectible accounts did not detect the misstatements.

Recommendation
We recommend that policies and procedures be improved and implemented to ensure that internal controls over financial reporting include procedures over accounts receivable and the related allowance for uncollectible accounts receivable to ensure these balances are reported accurately.

Management Response

The Department agrees with the audit finding, and believes it to be a one-time instance due in large part to converting to a new, merged business unit. We will review our year-end processes and add in steps and training for special situations.

Significant Deficiency

Finding 2019-002 – Cash Disbursements–Agency of Transportation

Condition
The State did not have adequate controls implemented to ensure that procurement processes were conducted in accordance with established policies and procedures.

Criteria
The State's Internal Controls Best Practices Series memorandum over Purchasing indicates the purchasing of goods and services should be made by a competitive process to ensure a prudent and efficient use of State funds. The memorandum also reiterates the required compliance with Agency of Administration's Bulletin 3.5: Procurement and Contracting Procedures. The requirements of Bulletin 3.5 apply to the procurement of all goods and services by all agencies and departments and include specific requirements related to the competitive bidding and contracting of services.

Context
The audit procedures surrounding expenditures and cash disbursements identified a transaction in which an expenditure was incurred and cash was disbursed to a vendor prior to the performance of the competitive bid process for the service and execution of a contract with the vendor in accordance with Bulletin 3.5.

Effect
Expenditures were made to a vendor whom was not approved in accordance with Bulletin 3.5. The purchased services were subsequently shifted to a different vendor for whom a statewide contract was executed.

Cause
Controls surrounding purchasing did not identify the expenditures were made to an unapproved vendor.

Recommendation
We recommend that policies and procedures be implemented to ensure that internal controls over purchasing include proper consideration of the required competitive bidding and contracting processes prior to the execution of transactions with vendors.

Management Response

The Agency of Transportation (AOT) agrees with Finding 2019-002 of inadequate controls in the procurement process.

On September 20, 2019 AOT Accounts Payable implemented a process to flag invoices to vendors that are non-compliant with Bulletin 3.5. The Financial Specialist or Financial Administrator reviewing the payment will elevate an invoice from a vendor that does not have a relevant contract or is not covered by a BDA to the AP Financial Director. The Financial Director will then request the exempt AOT division director responsible, who is a State Appointing Authority, to approve payment prior to remittance. This is an acknowledgement from management that even though the service and/or product was procured improperly, it was in fact a necessary purchase and relevant to operations. The effort is also designed to put the Appointing Authority responsible on notice that there are services or products provided by vendors in his or her division that are not under contract. Lastly, it is a certification that Accounts

Payable staff is not making the final decision to make a payment when it is non-compliant with Bulletin 3.5.

This process has helped us gain insight to the precise nature of the problem and the divisions who are most in need of remediation. While this practice has increased awareness of the deficiency in the divisions of the Agency that utilize centralized AP services, there remains divisions outside of the centralized AP process that need remedial education, such as the District Offices where the example finding occurred. Additionally, we recognize the need for corrective action to ensure compliance before goods and services are procured. In response, we have developed a corrective action plan proposed as follows:

AOT will increase education, training, and support to clarify State procurement policies and procedures. This will include developing a visual decision tree to assist employees through the procurement process.

The guidelines in Bulletin 3.5 sufficiently promote competitive bidding and stewardship of state funds. However, it isn't always clear to employees what action to take. A simple, clear decision tree will address that source of confusion. In addition, the Agency will promote the use of existing Statewide Contracts, Vendors who are approved to accept Purchasing Card payments, and Blanket Delegation of Authority. Awareness of available statewide contracts will limit instances of the example listed above - where purchased services had to be moved from a non-approved to an approved vendor. AOT Business Support Services will also take a more active role in assisting the divisions and districts that have been most frequently non-compliant.

Lastly, the Agency will issue guidance that re-states the necessary documentation required to make a payment for goods or services. AOT Accounts Payable will no longer remit payment to vendors for services that are lacking proper information and documentation, which is either evidence of an executed contract or the valid coverage of a BDA.

Our plan is to have this corrective action in place by February 29, 2020. We also welcome any additional recommendations to remedy this deficiency.