Vermont State Auditor

January 8, 2014

2014 – 2015 STRATEGIC PLAN

and

2013 PERFORMANCE REPORT

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Vermont State Auditor

OVERVIEW

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

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

The strategic plan covers a two-year period but we review the plan annually and make changes as needed (with explanations of any changes).

The performance report summarizes the extent to which we achieved the targets in our strategic plan for each goal and measure for calendar year 2013.

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

Sincerely,

DOUG HOFFER

Doug Hoffer

2014 STRATEGIC PLAN

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

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

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

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

Office Profile:

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

- annual audit of the state's financial statements - Comprehensive Annual Financial Report (CAFR);
- annual federal Single Audit (A-133);[1]
- discretionary governmental audits, as defined by the U.S. Government Accountability Office;
- discretionary post-audits of all expenditures, including disbursements to a municipality, school, supervisory union, school district, or court; and
- audits or reviews as statutorily required by the Legislature.

[1] The federal Single Audit Act requires states, local governments, and non-profit organizations expending over $500,000 in federal awards in a year to obtain an audit. A single audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity's compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

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

The SAO no longer conducts the statutorily mandated financial audits. The audit of the state's financial statements (CAFR) and the federal Single Audit (A-133) are now conducted by KPMG under contract to the SAO. That leaves us free to focus almost exclusively on performance audits, which provide objective analysis and recommendations to 1) program managers to help improve service delivery; 2) policy makers to better inform decisions about resource allocation; and 3) the general public, which has a right to know if taxpayer funds are being used effectively.

In addition to performance auditing, we have other responsibilities. For example, we will continue to work with KPMG and state government entities to reduce findings in the federally mandated Single Audit. This will improve the state's implementation of critical federal programs and reduce the cost of auditing these programs.[2]

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

<u>Staffing</u>: The SAO is authorized to have 15 staff positions, including the State Auditor, three appointees (Deputy State Auditor, executive assistant, and private secretary), a financial manager, and 10 professional audit staff members.

All ten of the current audit staff have bachelor's degrees and six have master's degrees. In addition, nine of the ten audit staff members have certifications in one or more professional areas, including Certified Public Accountant, Certified Internal Auditor, and Certified Information Systems Auditor.

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

[2] Office of Management and Budget (OMB) regulations require states to re-audit programs that have findings. Each additional audit costs $35,000.

fiscal year (2014), the Legislature appropriated $3.5 million to fund the SAO, including $3.1 million from the SARF and almost $400,000 from the General Fund.

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

Measure 1a: Number of performance audit reports issued

Purpose: Performance audits identify opportunities for improvements in program delivery, as well as potential savings or cost recovery.[3]

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

- CY 2013 - 7
- CY 2014 - 7

Strategies:

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

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

Challenges: As staff members gain more experience with performance auditing, we expect office output to increase. However, there are factors that can affect the number of performance audits completed each year, including the availability of data[4] and the timeliness of management responses to audit findings.[5]

Measure 1b: Average cost of performance audits

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

Targets:

- CY 2013 – NA (see Challenges below)
- CY 2014 - $150,000

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

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

Challenges: This was the first year that the SAO did not devote significant staff resources to the financial audits (other than to monitor KPMG's work) and focused almost exclusively on performance audits. In addition, some staff members were relatively new to performance auditing so the office has been on a learning curve the last three years. Furthermore, half of the performance audits conducted in the preceding two years dealt with four existing tax increment financing districts, work that was very complex and extraordinarily time-consuming. Thus, the prior baseline is not representative. Therefore, we have insufficient information to reliably predict average per audit costs. The figure for 2013 is reported in the performance section and helped inform our target for next year.

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

[5] Draft audit reports are shared with auditees who are given two weeks to respond to the findings. Their responses are included in the audit report as appendices, and the SAO may comment on issues raised in the management response. It is not uncommon for management responses to be late, which delays the completion of the audit.

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

Measure 1c: Value of identified savings or cost recovery

Purpose: In some cases, a performance audit will identify actual or potential savings or opportunities for cost recovery from contractors, grantees, or beneficiaries of incentive programs.[6] Although not the only measure of the value of performance audits, savings are quantifiable. However, it is impossible to forecast such savings because we don't always know in advance what audits will be performed and, in any case, savings cannot be predicted before actually conducting the audits. Therefore, we will report savings and cost recoveries in the performance report but will not set targets.

Note that not all audits will result in quantifiable savings. For example, the audit of the State Workers' Compensation Program was not a claims audit. Rather, it was about efforts to improve safety in the workplace. The recommendations identified opportunities to improve the program, which would likely result in savings, but there was insufficient evidence to estimate the magnitude.

Targets: NA

Strategy: In choosing audit topics, we will focus on those programs and entities that have a high operational or financial risk to the state, have had performance problems in the past, have never been subject to a performance audit, or are currently alleged to have operational and/or financial problems.

Challenges: None

[6] For example, our cell phone audit found the state could save at least $272,000 from better management of employee cell phones. Our audit of an AOT contract identified a missed opportunity to charge a contractor for liquidated damages totaling over $40,000. The audit of Correct Care Solutions (CCS), which provides health services in Vermont prisons, found that the state had chosen not to penalize the contractor for failing to meet certain benchmarks. In addition, the Vermont Employment Growth Incentive program allows the state to claw back money awarded to businesses that fail to meet performance obligations.

Measure 1d: Percentage of audit recommendations implemented within two years and four years

Purpose: The SAO makes recommendations designed to improve the operations of state government. For our work to produce benefits, state entities and/or the General Assembly must implement these recommendations. The greater the number of recommendations implemented, the more benefit will be achieved from our audit work. We have no power to compel implementation of our recommendations, but a measure of the quality and persuasiveness of our performance audits is the extent to which our recommendations are acted upon. Experience has shown that it takes time for some recommendations to be implemented. For this reason, we track recommendations after two and four years.

Targets:
Percent of recommendations implemented within two years – 50%
Percent of recommendations implemented within four years – 75%

Strategy: Annually review state entity corrective actions in response to audit recommendations. Recommendation follow-up will be performed for audit reports issued two and four years prior to the calendar year (e.g., the follow up in the 2013 performance report below is for audits issued in calendar years 2011 and 2009).

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

Measure 1e: Number, potential savings, and outcomes from non-audit inquiries

Purpose: As noted above, the SAO conducts non-audit inquiries in addition to performance audits. These investigations are intended to achieve the same goals as performance audits; namely, to identify opportunities to improve service delivery and save money. However, they are more limited in scope than performance audits.

Targets: As with performance audits, we cannot predict savings but we will report potential savings or cost recoveries identified through non-audit inquiries. Although one non-audit inquiry was completed in 2013, 2014 is the first year a full-time staff member will be tasked with performing non-audit inquiries so there is no historical data and some uncertainty about how many reports will be produced.

Targets:

Number of non-audit inquiries

CY 2014 – 8

CY 2015 – 9

Value of identified savings or cost-recovery – NA

Outcomes – NA

Strategies: The executive assistant will report directly to the State Auditor and work closely with the Deputy Auditor as well. In addition, both audit and non-audit staff will provide occasional assistance in the execution of non-audit inquiries.

Challenges: None

GOAL 2: COMPLETE MANDATED FINANCIAL AUDITS ON SCHEDULE

The financial audits are required to be completed by December 31st (CAFR[7]) and March 31st (Single Audit[8]). The Commissioner of the Department of Finance & Management prepares the financial statements, which are audited by KPMG (under contract to the SAO) and KPMG conducts the Single Audit.

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

Purpose: Although the SAO no longer conducts the CAFR and Single Audits, we remain responsible for ensuring that these audits are completed on time.

Targets

FY 2013 and FY 2014 – Both audits on time

Strategy: Actively monitor the process through weekly status meetings with staff from KPMG and the Department of Finance & Management.

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

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7 32 VSA §182(a)(8)

8 Paragraph .320(a) of OMB Circular A-133

Measure 2b: Number of repeat Single Audit findings

Purpose: Under a contract with the SAO, KPMG annually audits selected state entities to determine if they comply with federal requirements in a variety of control areas, such as program eligibility and cash management. Given the wide scope of this audit and the numerous federal requirements that are checked for compliance, it is not unreasonable for the state to have Single Audit findings. However, state entities should work hard to minimize the number of repeat findings in order to comply with federal requirements and reduce future audit costs.[9] The SAO cannot compel state entities to implement the Single Audit recommendations, but we can report the number of repeat findings and track changes over time. In addition, we will continue to work with the parties to emphasize the importance of avoiding repeat findings. Although history provides some guidance as to the frequency of repeat audit findings, we will not set targets as they are beyond our control.

Targets: NA

Strategy: We will work with KPMG to provide guidance to state entities on how to fix repeat audit findings.

Challenges: There is no penalty for not implementing Single Audit recommendations. In some cases, the cost of implementing the recommendations could exceed the cost of the resulting re-audits ($35,000), which is a disincentive to curing the problem.

Measure 2c: Number of Single Audit re-audits[10]

Purpose: A significant driver of the cost of the Single Audit is the number of programs that have to be audited. According to rules established by the federal Office of Management and Budget, some programs must be audited every year, such as Medicaid. Other programs are audited once every three years if they meet certain dollar thresholds. Programs with prior audit findings must be audited and these are termed "re-audits." The SAO has no direct means of influencing this measure so we will track and report the number of re-audits but will not set targets.

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

10 We do not include Medicaid in this measure because the federal Department of Health and Human Services has designated this program as high risk and requires that Medicaid be audited every year regardless of whether there are findings in the prior year's audit.

Targets: NA

Strategy: Provide guidance to state organizations on how to minimize future re-audits and charge the offending organization the full cost of any reaudits.

Challenges: See Measure 2b Challenges above.

GOAL 3: NON-AUDIT SERVICES

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

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

Targets: NA

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

Challenges: None

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

Purpose: The SAO occasionally co-sponsors trainings for professionals from municipalities, schools, and the private sector. In order to gauge the usefulness of the training, we ask participants to evaluate the presenters and the presentations and tell us whether the information provided was clear and beneficial.

Targets:

2013 - 85% high satisfaction[11]

2014 - 85% high satisfaction

Strategy: Seek input from state and local government entities, including sheriffs, on the type of training needed that would improve financial competence across the state. Work with other entities, such as the Vermont League of Cities and Towns, to sponsor relevant and timely training opportunities by expert presenters. Obtain evaluations of SAO-sponsored training from participants.

Challenges: None

[11] Survey respondents report satisfaction on a five-point scale. High satisfaction is defined as scores of four and above.

CALENDAR YEAR 2013 PERFORMANCE REPORT

Goal 1: Promote government accountability and improve the efficiency and effectiveness of state government through performance audits and reviews			
Goal	**Performance Measure**	**Target**	**CY 2013 Actual**
1.a.	Number of audits	7	6[a]
1.b.	Average cost per completed audit	NA	$155,870[b]
1.c.	Value of potential savings or cost recovery		
	i. State Workers' Comp. Program	---	See below
	ii. AOT Contracts	---	$42,000
	iii. CCS / Dept. of Corrections	---	See below
	iv. Cell phones	---	$272,000
1.d.	Percent of recommendations implemented – see below		
1.e.	Number of completed non-audit inquiries[c]	---	Begins in 2014

a. Five audits were completed and four others are each about 25% done.

b. Based only on the average of the five completed audits.

c. One non-audit inquiry was completed in 2013 (SEALL) but we had no target for the first year.

Comments:

1.a.	Two audits took more time than anticipated, which affected both the cost and the subsequent audit schedule. Specifically: • **CCS/DOC**: Several events occurred subsequent to the initiation of the audit: ➢ Adding and training a new performance auditor in the course of the audit; ➢ Additional information provided by the DOC after the exit conference that required review and analysis; and ➢ Extra time for agency comments at the request of the DOC • **Cell phones**: There were significant delays associated with obtaining reliable cell phone usage and cost data in an electronic data file from AT&T.
1.b.	• **General**: New procedures for reviewing and editing draft reports have added about 2% - 3% to the cost of each audit. • **Cell phones**: Approximately $12,000 of the cost of this audit was the result of the delays noted above.
1.c.i.	The audit of the State Workers' Comp. Program was not a claims audit. Rather, it was about the program's efforts to improve safety in the workplace. The recommendations identified opportunities to improve the program, which would likely result in savings, but there was insufficient evidence to estimate the magnitude.

Comments continued:

1.c.ii.	One of the two AOT audits found that the Agency had not charged the contractor for all of the costs associated with the delayed completion of the job ($42,000). After the audit was completed, we learned that there were 44 other projects with liquidated damages over the last five years and that in each case the Agency only charged for administrative overhead. We are currently conducting a non-audit inquiry and looking into these other contracts, which collectively had a total of 579 days of overruns.
1.c.iii.	The CCS/DOC audit found that for some time DOC failed to utilize contract provisions allowing penalties to be assessed for failure to meet certain performance requirements. The purpose of these penalties (which could have exceeded $100,000) is to provide an incentive to the contractor to minimize costs. Since the cost-plus contract was $4.2 million over budget for the term, it's not unreasonable to assume that earlier use of the penalties might have resulted in reduced costs. Hopefully, our recommendations will result in savings going forward.
1.c.iv.	The cell phone audit found potential savings of $272,000 from the elimination of phones with limited or no use. In addition, staff examined five of the State's 115 cell phone pools and found that switching to lower cost monthly service plans would save about $17,000. The five pools analyzed represented about 30% of the total unused voice minutes in all cell phones pools. Given that the State had an additional 110 pools with about 70% of the unused minutes, it is likely that further savings would be identified by performing similar analyses for the remaining pools.

1.d. Percent of recommendations implemented

Year & Report #	Short Title	# of Recs.	# of Recs. Partially or Fully Implemented	Four-year Target	Actual
2009					
09-3	BGS Performance Measurement	7	6	75%	86%
09-4	DMV Performance Measurement	7	7	75%	100%
09-5	DED & VEPC Performance Measurement	10	6	75%	60%
	Total 2009 – Four Years Out	**24**	**19**	**75%**	**79%**

Year & Report #	Short Title	# of Recs.	# of Recs. Partially or Fully Implemented	Two-year Target	Actual
2011					
11-1	Corrections Sex Offender Caseloads	5	4	50%	80%
11-3	Newport TIF	4	2	50%	50%
11-5	Medicaid Providers	19	10	50%	53%
	Total 2011 – Two Years Out	**28**	**16**	**50%**	**57%**

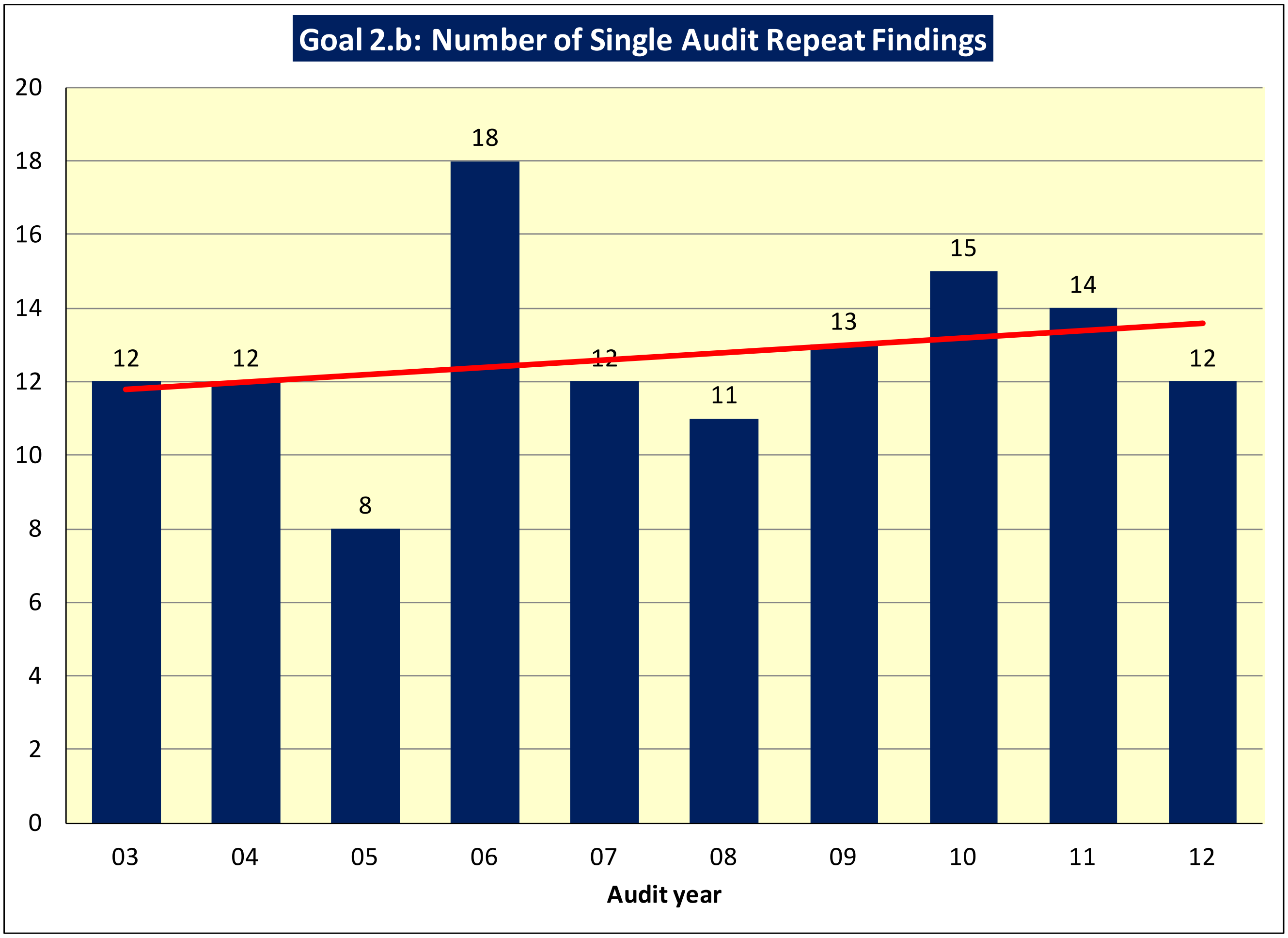
Historical Figures for Recommendation Follow-up				
Year audits conducted	**2-year Target**	**2-year Results**	**4-year Target**	**4-year Results**
2006	50%	NA[a]	75%	67%
2007	50%	NA[a]	75%	69%
2008	50%	84%	75%	85%
2009	50%	46%	75%	79%
2010	50%	74%	75%	NA
2011	50%	57%	75%	NA

a. Recommendation follow-up began in 2010 so there are no two-year results for 2006 and 2007.

Goal 2.a: Complete mandated financial audits on schedule			
Goal	**Performance Measure**	**Target**	**FY 2013**
2.a.i.	Complete the CAFR by statutory deadlines	12/31	On time
		Target	**FY 2012**
2.a.ii.	Complete the Single Audit by regulatory deadlines (FY2013 Single Audit is still in process)	3/31	On time

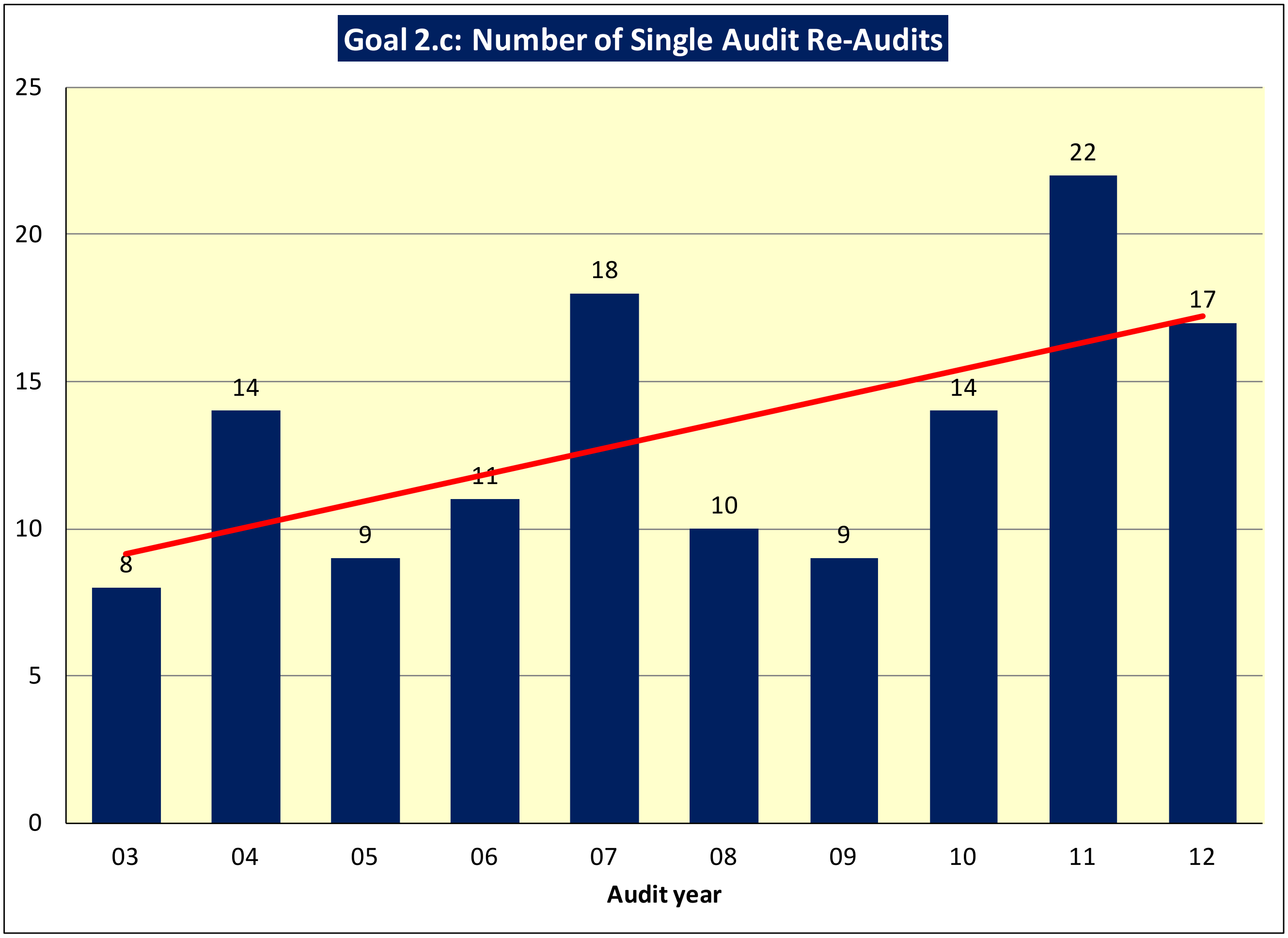
Repeat findings have declined since 2010, but are no better than ten years ago.

<u>Note</u>: 2013 figures will be available in March.



In 2010 and 2011 there were abnormalities in the number of programs audited and re-audited due to the American Recovery and Reinvestment Act (ARRA). Some of the ARRA effects are still seen in 2012 as well.

Note: 2013 figures will be available in March.



Goal 3: Non-audit services

Goal	Performance Measure	Target	CY 2013
3.a.	Number, type and outcomes of inquiries from, municipalities, whistleblowers, and others	---	127 Total
i.	Alleged welfare fraud	NA	47
ii.	Other whistleblower complaints	NA	28
iii.	Questions about various state & private entities	NA	23
iv.	Questions from municipal officials	NA	16
v.	Requests for audits + questions about completed audits	NA	13
3.b.	Satisfaction levels of those attending trainings supported or co-sponsored by the SAO:		
i.	VLCT / SAO Symposium June 19, 2013		
(a)	The learning objectives of the session clearly met	85%	84%
(b)	Prerequisite requirements were appropriate and sufficient	85%	88%
(c)	Materials were valuable & contributed to learning objectives	85%	86%
(d)	Program content relevant to my professional responsibilities	85%	83%
(e)	Presentation was well organized and effective in meeting learning objective	85%	89%
(f)	Time allocation was appropriate for the topic	85%	94%
(g)	The audio and video materials were effective	85%	89%
ii.	Institute of Internal Auditors, COSO, Nov. 14th & 15th 2013		
(a)	Facilitator grade	85%	88%
(b)	Materials grade	85%	80%
(c)	Event grade	85%	90%
(d)	Overall grade	85%	82%

Comments:

3.a.i.	Fraud allegations are forwarded to the AHS fraud unit. According to AHS, none of the allegations were substantiated. We intend to pursue this at a later date.
3.a.ii.	Other whistleblower complaints: municipalities (9), workplace misclassification (3), school finance (3), tax fraud (2), Corrections (2), Vermont Health Access (2), and one each for Agriculture, Econ. Development Authority, Human Resources, Information & Innovation (DII), Legislature, Military, and Transportation. Some complaints were forwarded and all the others were investigated. Only one led to findings (Corrections).
3.a.iii	Questions from other state auditors or about state and private entities included eight directed to the Auditor's Office, three about DVHA, two about DII and Tax, and one each for Corrections, Courts, Health, Housing Vermont, Liquor Control, TIF, Treasurer's Office, and one school.
3.a.iv.	About half the inquiries from municipalities were actually about legal issues better addressed by the Sec. of State. The rest were about training and audit issues.
3.a.v.	We received two requests to audit the Dept. of Information & Innovation, and one each for Buildings & General Services, CIGNA, Agency of Education, Mental Health, Tax, Transportation and the Auditor's Office.