



Vermont State Auditor

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January 2010

FY 2010-2012 Strategic Plan  
and  
FY 2009 Performance Report

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**Thomas M. Salmon, CPA**  
**Vermont State Auditor**

**THOMAS M. SALMON, CPA  
STATE AUDITOR**



**STATE OF VERMONT  
OFFICE OF THE STATE AUDITOR**

January 25, 2010

We are facing challenging times as a country, state, and as individuals. As your State Auditor, it is my privilege to help our state weather the immediate difficulties and to emerge from them even stronger.

Our response to this crisis should not be one-dimensional—to consider *only* administrative and personnel cost cutting, revenue increases, or service reductions. Instead, it is critical to consider all options and choose a balanced approach that is right for our citizens as a whole. It is my intent to work with the Legislature, the Governor, and the other statewide elected officials to promote an objective and fact-based approach to the decisions that have to be made.

As State Auditor my role is multi-faceted. Not only does my office look for opportunities to operate the government more economically, we also look at the *performance* of the programs and services provided by the State. Another important role is to look at whether State organizations are complying with State and Federal requirements and to oversee the annual audit of the State's financial statements. I also recognize that the expertise in my office can be of use to local government, our school systems, and others therefore we provide our assistance whenever possible.

This document contains both our most recent strategic plan and the performance report for the past fiscal year (fiscal year 2009) and, in conjunction with our fiscal year 2011 budget request, fulfills the requirements of 32 VSA §307(c). I hope you find this document to be informative in terms of the direction that my office plans to take in the next three years as well as how well we've done in the past. I also urge you to visit our website ([www.auditor.vermont.gov](http://www.auditor.vermont.gov)) to look at the audit reports that we've issued recently as well other useful information.

Sincerely,

A handwritten signature in black ink that reads "Thomas M. Salmon CPA".

Thomas M. Salmon, CPA  
State Auditor

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## Abbreviations

AOT	Agency of Transportation
ARRA	American Recovery and Reinvestment Act
BGS	Department of Buildings and General Services
CAFR	Comprehensive Annual Financial Report
CY	Calendar year
FY	Fiscal year
SAO	State Auditor's Office

# FY 2010-2012 Strategic Plan

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## Mission Statement

The mission of the 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.

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## 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;
- done in a fair manner; 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.

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## Office Profile

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### Statutory Responsibilities

The State Auditor is a constitutional officer, elected biennially by the citizens of Vermont. The Auditor's principal duties are generally defined by 32 VSA §163, 167, and 168. These duties include the following:

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- the annual audit of the State's financial statements, commonly known as the Comprehensive Annual Financial Report (CAFR);
  - the annual Federal Single Audit;<sup>1</sup>
  - 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;
  - audits or reviews as statutorily required by the Legislature, such as the law requiring all tax increment financing districts to be audited once every three years; and
  - at the request of a municipality, the establishment of uniform systems of accounting and reporting for cities and towns.
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## Staffing

The number of positions that the SAO is authorized to carry is 15 (including the State Auditor and three appointees (Deputy State Auditor, Executive Assistant, and Private Secretary). However, because of the State's on-going financial problems, the Office has agreed not to seek funding for two of our authorized positions at this time. Should the State's financial problems recede before the end of this planning cycle, we plan to request funding for these positions.

Historically, the number of audit staff members in the SAO varies from 8-11. The Office has emphasized hiring audit staff with strong academic backgrounds and relevant certifications. Accordingly, all of the audit staff members have Bachelors degrees and, in three cases, Master's degrees. Moreover, most of the audit staff members have earned certifications in one or more professional areas, including Certified Public Accountant, Certified Internal Auditor, and Certified Information Systems Auditor.

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<sup>1</sup>The Federal Single Audit Act requires states, local governments, and nonprofit organizations expending over \$500,000 in federal awards in a year to obtain an audit in accordance with requirements set forth in the Act. 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.

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## Overarching Strategic Direction

Vermont taxpayers demand that their government provide effective citizen-centric services in an efficient and economical manner. It is not just a matter of how much a program or function costs, but also whether goals are achieved, client needs are met, and high-quality government operations are developed and maintained. The auditor's office is committed to working with all levels of government to promote this vision of accountability.

As described in our prior strategic plan, the SAO has been shifting from an organization that has largely concentrated on narrowly looking at the financial operations of State government in order to give an opinion on the State's financial statements to one that is more focused on assessing how well government is conducting its many roles and programs through performance audits. Performance audits provide objective analysis so that management and those charged with governance and oversight, such as the General Assembly, can use the information to improve program performance and operations, reduce costs, facilitate decision-making, and contribute to public accountability.

We plan to continue this overall direction of the Office. Toward this end, during the next 3 years we plan to:

- continue to expand the number and complexity of performance audits executed;
- assess the extent to which State organizations are implementing our recommendations;
- expand our performance auditing skills through formal and on-the-job training; and
- undergo a peer review<sup>2</sup> of our performance audits.

We cannot always predict the types of performance audits that the Office will perform because the decisions can be based on new statutory requirements, unanticipated requests by the Legislature or the Governor, or unexpected problems in a particular program. Nonetheless, based on known statutory mandates and areas that are perceived to need improvement, we intend to

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<sup>2</sup>Peer reviews are performed by an external organization of (1) our quality control policies and procedures, (2) the adequacy and results of our internal monitoring procedures, (3) selected reports and documentation, and (4) other documents necessary for assessing compliance with auditing standards.

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focus our performance auditing body of work in the next three years on (1) economic development programs, (2) sex offender management, (3) education, and (4) identifying potential areas of improper payments through the use of data analysis software.

Our commitment to performance auditing has not diminished our interest in continuing to support our remaining portfolio of work. In particular, we remain dedicated to working with KPMG<sup>3</sup> and State government entities to reduce findings in the federally mandated Single Audit. Reducing findings will not only improve the State's implementation of critical federal programs, such as childhood immunization, but will also reduce the cost of auditing these programs. In addition, the SAO retains its commitment to assisting local governmental entities and Sheriffs' Departments improve their financial management and accountability.

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## Critical Uncertainty

In early 2009, the Federal government enacted the American Recovery and Reinvestment Act (ARRA), which included hundreds of millions of dollars of funding to Vermont for a variety of programs. As one might expect, there are also considerable audit requirements that accompany the State's acceptance of this funding. Although we know that these requirements will significantly affect the SAO's work during the period covered by this Strategic Plan, we do not yet know with certainty the number of programs that will be subject to audit as a result of ARRA funding. However, our preliminary analysis indicates that at least twice as many programs will be subject to Single Audit requirements than our pre-ARRA planning had anticipated. If this turns out to be the case, funding for our contract for the Single Audit will have to reflect this increased scope. In addition, more SAO resources may need to be devoted to the Single Audit and CAFR audits in order to mitigate the size of any increase.

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<sup>3</sup>We contract with the independent audit firm of KPMG to perform the State's Single Audit and the annual audit of the State's Comprehensive Annual Financial Report.

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## GOAL 1: Promote Government Accountability and Improve the Efficiency and Effectiveness of State Government Through Performance Audits

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### Measure 1a: Percentage of audit staff resources applied toward performance audits

#### **Purpose**

Since one of the SAO's major initiatives is to emphasize performance auditing, by tracking the proportion of audit staff resources being used to conduct performance audits, the SAO will be able to assess whether we are devoting enough resources to achieving this initiative. We view this as a short-term measure that will be eliminated when we begin to see a stabilization of the resources provided for performance auditing.

#### **Targets**

FY 2010 50%

FY 2011 50%

FY 2012 50%

#### **Strategy**

Reducing staff hours committed to assisting KPMG in completing the CAFR and Single Audit.

#### **Challenges and external dependencies**

Expected increased audit responsibilities under ARRA could require the SAO to significantly increase the number of staff hours devoted to the KPMG work in FY 2010 and FY 2011 in order to limit the increased cost of this contract to meet the requirements.

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### Measure 1b: Number of performance audit reports issued

#### **Purpose**

Most of the current SAO staff members have much more experience in financial statement auditing than performance auditing. Accordingly, the Office is undergoing a steep learning curve because performance auditing uses a significantly different approach to auditing. As staff members become more familiar with performance auditing, the Office expects to achieve

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efficiencies that will allow it to issue more reports. Nevertheless, the number of performance reports issued by the SAO in a given year will remain relatively low because of the small size of the Office. In addition, the number of reports issued is largely dictated by the complexity and scope of the work being performed. Accordingly, an increase in the number of reports is not necessarily an indication of improved production.

## **Targets**

FY 2010 5

FY 2011 6

FY 2012 6

## **Strategy**

- Train auditors in performance auditing.
- Implement planned improvements to audit planning, execution, and reporting procedures.

## **Challenges and external dependencies**

- Most of the current SAO audit staff members have limited performance auditing experiences. It is anticipated that training and on-the-job experience will increase the Office's ability to perform such audits.
- Expected increased audit responsibilities under ARRA could require the SAO to significantly increase the number of staff hours devoted to the KPMG work in FY 2010 and FY 2011 in order to limit the increased cost of this contract to meet the new requirements.

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**Measure 1c: Percentage of performance audit reports with recommendations to achieve cost savings and improve operational effectiveness and efficiency**

## **Purpose**

To provide the greatest value to the taxpayers and State government, the SAO's limited performance audit resources should be focused on reviewing those entities and programs that have a high operational or financial risk to the State, have had performance problems in the past, or are currently alleged to have existing performance or operational issues. This measure provides a mechanism to assess how well we are choosing the most needed audits by

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calculating how many of our audits result in meaningful recommendations. Nevertheless, there may be occasions where it would be appropriate to issue audit reports that are informational rather than evaluative or where the findings do not warrant recommendations.

## **Targets**

FY 2010 80%

FY 2011 80%

FY 2012 80%

## **Strategy**

- Train auditors in performance auditing.
- Implement planned improvements to audit planning, execution, and reporting procedures.
- Focus audit effort on high risk programs.

## **Challenges and external dependencies**

An increasing number of the SAO's audits are statutorily required, which reduces the flexibility of the office to focus on high risk functions and entities.

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Measure 1d: Percentage of audit recommendations to State entities implemented within 2 years and 4 years<sup>4</sup>

## **Purpose**

The SAO makes recommendations designed to improve the operations of State government. For our work to produce benefits, State entities or the General Assembly must implement these recommendations although we cannot require them to do so. Nevertheless, a measure of the quality and persuasiveness of our performance audits is the extent to which these recommendations are accepted and acted upon. The greater the number of recommendations that are implemented, the more benefit will be achieved from our audit work. Experience has shown that it takes time for some

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<sup>4</sup>The SAO is in the process of developing a recommendation followup process that will allow us to calculate this measure. The first year of this process/measure will be calendar year 2010.

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recommendations to be implemented. For this reason, we will be tracking recommendations resulting from performance audits after 2 and 4 years.

## **Targets**

### % Implemented Within 2 Years

CY 2010 50%

CY 2011 50%

CY 2012 50%

### % Implemented Within 4 Years

CY 2010 75%

CY 2011 75%

CY 2012 75%

## **Strategy**

Perform a biennial update of State entity corrective actions performed to address audit recommendations beginning in calendar year 2010.

## **Challenges and external dependencies**

Meeting these targets will require the cooperation and sustained attention from the State's agencies and departments.

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## GOAL 2: Foster Improved Communication and Management Across All Levels of Government

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Measure 2a: Number of responses to legislative, government, and citizen inquiries

### **Purpose**

Although the SAO's principal mission is to perform audits, we often field inquiries from members of the General Assembly, other governmental entities, or the public that request that we provide information or analyze a particular situation. In responding to such inquiries, the SAO provides a service that improves and facilitates knowledge of how governmental entities or programs work or are managed. In some cases, the SAO is able to provide this information immediately and replies verbally. In those situations in which information gathered in response to inquiries is expected to improve

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the public discourse or result in favorable outcomes, responses are provided in writing.

## **Targets**

FY 2010 110

FY 2011 120

FY 2012 125

## **Strategy**

- Increase our profile as a source of credible information.
- Seek opportunities to perform short, narrowly focused analyses that result in a written product.

## **Challenges and external dependencies**

We cannot use our primary funding source, the Single Audit Revolving Fund, for many of these projects. Accordingly, our ability to provide this service is limited in large part by our General Fund budget, which has been reduced in recent years.

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Measure 2b: Number of SAO presentations to governmental institutions or to members of professional organizations

## **Purpose**

As a source of technical advice and expertise, the State Auditor, Deputy State Auditor, and SAO staff make themselves available to give presentations in front of state, county, and local government staff as well as to other members of the auditing community. For example, because many of Vermont's county and local government institutions are very small, they often do not have the benefit of available resources to research and implement critical financial management practices. Presentations by the State Auditor and SAO staff who have significant experience in a wide variety of financial management activities contribute towards improving county and local government officials' knowledge and skills. A tangible measure of our commitment to sharing our knowledge and experiences are the number of presentations that we give.

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## **Targets**

FY 2010 14  
FY 2011 15  
FY 2012 16

## **Strategy**

- Continue to offer guidance to county and local government institutions on financial management issues.
- Proactively seek presentation opportunities.

## **Challenges and external dependencies**

None

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## Measure 2c: Number of attendees at SAO-sponsored training and workshops

### **Purpose**

For the past four years, the SAO has sponsored a financial management training conference for financial management and auditing professionals in state, county, and local governments and the private sector. These conferences have disseminated important information to a wide audience. In addition, having a conference in which all types of professionals participate facilitates an exchange of ideas among professional communities that may not otherwise meet. In addition, as part of our commitment to the county and local government financial management communities, the SAO has helped sponsor more targeted training for these officials. The number of attendees at SAO-sponsored training is an indicator of our commitment to training a wide audience of professionals.

### **Targets**

FY 2010 200  
FY 2011 200  
FY 2012 200

### **Strategy**

- Seek input from state and local government entities, including the county sheriffs and the State's internal auditing working group, on the

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type of training needed that would improve financial and auditing 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.
- Maintain our authorization to provide continuing professional education credits through registration with the National Association of State Boards of Accountancy.
- Seek to widely publicize SAO-sponsored training opportunities.
- Keep costs as low as possible to encourage participation.

## **Challenges and external dependencies**

None

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## Measure 2d: Percentage of attendees at SAO-sponsored training that indicated a high satisfaction level<sup>5</sup>

### **Purpose**

An important indicator of the quality of the training that the SAO offers is whether the attendees believe that the information provided is useful to their work. For this reason, the SAO requests attendees to evaluate those training session or workshops that we sponsor or co-sponsor.

### **Targets**

FY 2010 85%

FY 2011 85%

FY 2012 85%

### **Strategy**

- Seek input from state and local government entities, including the county sheriffs, on the type of training needed that would improve financial competence across the State.

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<sup>5</sup>High satisfaction level is defined as respondents who reported a satisfaction level of 4 or 5 on a 5-point scale.

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- 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 and external dependencies**

None

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## **GOAL 3: Maintain Sustained Attention to Completing Mandated Financial Audits in a Timely and Cost-Efficient Manner**

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Measure 3a: Complete CAFR and Single Audit in accordance with timeframes mandated by statute

### **Purpose**

Although the SAO is in the process of decreasing our role in the CAFR and Single Audits, we recognize that, by statute, we remain ultimately responsible for ensuring that these audits are completed on time. Accordingly, we measure the extent to which these audits meet the deadlines set by State and Federal statutes.<sup>6</sup>

### **Targets**

FY 2010	100%
FY 2011	100%
FY 2012	100%

### **Strategy**

- Provide staff resources to KPMG to facilitate the completion of these audits on time.
- Provide sustained management attention to monitoring the KPMG contract to ensure that the audits are on track to be completed on time.

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<sup>6</sup>The State requires that the financial statement audit be completed by December 31st of each year and the Federal government requires the completion of the Single Audit by March 31st.

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## **Challenges and external dependencies**

Meeting these targets is largely dependent on KPMG and the State's financial management team.

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## Measure 3b: Number of repeat Single Audit findings

### **Purpose**

Under a contract with the SAO, KPMG annually audits whether selected State entities 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, it may not be reasonable to expect that the State will have no Single Audit findings. However, the SAO believes that State entities should be able to minimize the number of repeat findings, which would indicate the State's commitment to complying with Federal requirements and reduce future audit costs. Although the SAO cannot control whether State entities implement the Single Audit recommendations that are designed to eliminate repeat findings, we believe that our sustained attention to this area can help reduce their number.

### **Targets**

FY 2010 7  
FY 2011 6  
FY 2012 6

### **Strategy**

Facilitate communication between KPMG and State organizations and work with KPMG to provide technical guidance to State organizations on how to fix repeat audit findings.

### **Challenges and external dependencies**

Meeting these targets will require cooperation and commitment from the State's agencies and departments.

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## Measure 3c: Number of Single Audit Re-audits (except Medicaid)<sup>7</sup>

### **Purpose**

A significant driver of the cost of the Single Audit is the number of programs that have to be audited. Some programs are required to be audited every year, such as Medicaid, or are audited on a 3-year recurring basis if they meet certain dollar thresholds. However, in other cases, programs may only be audited in a given year because of a prior audit finding—these are termed “re-audits.” For the past three years, the SAO has been diligently working with State entities and KPMG to significantly reduce the number of re-audits—which peaked at 17 in FY 2007—including facilitating communication between KPMG and State entities and providing guidance. Measuring the number of re-audits annually provides a mechanism for the SAO to ensure that the commitment to maintain this sustained attention remains.

### **Targets**

FY 2010 4  
FY 2011 4  
FY 2012 4

### **Strategy**

Facilitate communication between KPMG and State organizations and provide technical guidance to State organizations on how to minimize future re-audits.

### **Challenges and external dependencies**

Meeting these targets will require cooperation and commitment from the State’s agencies and departments.

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<sup>7</sup>We do not include Medicaid in this measure because, unlike other programs, 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.

# FY 2009 Performance Report

# FY 2009 Performance Report

We measure our performance both quantitatively and qualitatively. First, we track how well we are doing in meeting the quantitative performance targets set forth in our strategic plan. Such tracking allows us to determine whether we are meeting our goals and whether there are adjustments that we need to make. Second, we assess our major activities (e.g., audits, training) from a qualitative perspective. In other words, what major accomplishments were derived from our work?

From a quantitative perspective, we met or exceeded our performance targets in fiscal year 2009 about half of the time. We are particularly proud that we met or exceeded most of our performance audit targets because of the emphasis that we have been placing in this area. Nevertheless, we believe that we can do better and plan to take action to improve our performance; including enhancing our tracking of certain events and strengthening our efforts to emphasize the importance of fixing audit findings. From a qualitative perspective, we had a significant number of accomplishments in FY 2009, particularly considering the small size of our audit staff. These accomplishments resulted in direct benefits, including improved management and communication, to State and local governmental entities as well as to the citizenry as a whole.

## FY 2009 Target Achievement

Table 1 summarizes the extent to which we met our performance targets and what actions we plan to take to improve our performance, where applicable.

**Table 1: Summary of FY 2009 Performance Results**

Measure	FY 2008 Actual	FY 2009		Analysis/Commentary
		Target	Actual	
Goal 1: Promote Government Accountability and Improve the Efficiency and Effectiveness of State Government Through Performance Audits				
Measure 1a: Percentage of audit staff resources applied toward performance audits	Unk	35%	35%	<b>Target met.</b>
Measure 1b: Number of performance audit reports issued	1	3	2	<b>Target not met.</b> Although we did not meet this target, at the end of the fiscal year we had two additional reports being reviewed that were issued early in FY 2010.
Measure 1c: Percentage of performance audit reports with recommendations to achieve cost savings and improve operational effectiveness and efficiency	100%	80%	100%	<b>Target exceeded.</b>

# FY 2009 Performance Report

Measure	FY 2008	FY 2009		Analysis/Commentary
	Actual	Target	Actual	
<b>Goal 2: Foster Improved Communication and Management Across All Levels of Government</b>				
Measure 2a: Number of responses to legislative, government, and citizen inquiries	69	98	70	<b>Target not met.</b> Our results may be understated because of incomplete documentation. We are implementing a new tracking process in FY 2010 that should provide a better indication of whether we have set realistic targets based on our current funding model. We will reevaluate our targets for this measure next fiscal year.
Measure 2b: Number of SAO presentations to governmental institutions or to members of professional organizations	12	12	15	<b>Target exceeded.</b>
Measure 2c: Number of attendees at SAO-sponsored training and workshops	520	200	279	<b>Target exceeded.</b>
Measure 2d: Percentage of attendees at SAO-sponsored training that indicated a high satisfaction level <sup>a</sup>	83%	85%	74%	<b>Target not met.</b> To improve our performance in this measure, we plan to work more closely with our partners in assessing the needs of attendees at our events.
<b>Goal 3: Maintain Sustained Attention to Completing Mandated Financial Audits in a Timely and Cost-Efficient Manner</b>				
Measure 3a: Complete CAFR and Single Audit in accordance with timeframes mandated by statute <sup>b</sup>	50%	100%	100%	<b>Target met.</b>
Measure 3b: Number of repeat Single Audit findings <sup>b</sup>	8	8	12 <sup>c</sup>	<b>Target not met.</b> To improve our performance in this measure we plan to meet with the relevant State organizations and emphasize the need to fix findings.
Measure 3c: Number of Single Audit re-audits (except Medicaid) <sup>b</sup>	6	5	12 <sup>c</sup>	<b>Target not met.</b> To improve our performance in this measure we plan to meet with the relevant State organizations and emphasize the impact of re-audits on their organization and the State as a whole. To provide further incentive to these organizations, we have also changed our billing model to charge them for the cost of the reaudit rather than spreading these costs over the rest of State government.

<sup>a</sup>The title for this measure was changed in FY 2009 to more closely reflect the wording in our evaluation tool. Also, actual results only reflect the views of those attendees that completed evaluation forms.

<sup>b</sup>Measure 3a relates to the audit reports that were issued in FY 2009 (reflecting FY 2008 results) while measures 3b and 3c refer to the Single Audit's FY 2009 results.

<sup>c</sup>These numbers are estimates based on a preliminary analysis from KPMG. The final numbers were not available as of the date of this report because the Single Audit had not been finalized.

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# FY 2009 Performance Report

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## Accomplishments

Although the Vermont State Auditor's Office is the smallest State auditor's office in the nation, our fiscal year 2009 accomplishments belied our size. Our primary work product (audit reports), other external activities (e.g., responses to inquiries and training), and internal improvement projects had positive outcomes for the state and local governments as well as for our internally-focused activities. (A list of our written products can be found in appendix I.)

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## Audit Reports

Our audit reports fall into two categories: (1) performance audits and (2) financial audits. We issued significant reports in both of these areas, as follows:

- Our performance audit report on the Agency of Transportation's (AOT) Rail Section contracts and agreements had four key findings: (1) AOT and its railroad subcontractors did not adequately follow procurement regulations, resulting in \$7.2 million of recent contracts not being competitively bid, (2) oversight and administration of rail contracts needed improvement, (3) lease revenues and the performance of leaseholders were not being verified, and AOT had foregone \$37,000 in interest revenues from late payments of monthly leases, and (4) AOT did not have adequate procedures to correct audit findings and to follow up on approximately \$436,000 in questioned costs from past Rail Section audits. We made recommendations designed to address each of these findings. AOT has been actively addressing these recommendations and has improved its procedures and billing and collection activities. Moreover, AOT billed the applicable vendor to recover the \$436,000 in questioned costs.
- We began a series of performance audits evaluating the performance measurement systems of several departments. Our first report in this area found that the performance measurement system utilized by the Department of Buildings and General Services (BGS) was not yet mature. We made a series of recommendations that, if implemented, could improve BGS' performance measurement system which, in turn, should provide a realistic and multifaceted picture of the Department's performance. Moreover, although the reports were not issued in FY 2009, the SAO largely completed work on performance measurement system audits at three other State organizations. These

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performance measurement audits also had outcomes beyond the four specific organizations we reviewed. In particular, as a result of our audits, the Administration has established a project to improve performance measurement throughout State government. This is an important step toward improving the State's decision-making processes.

- The FY 2008 financial statement audit and Single Audit were completed on time. These audits provide valuable insight into whether the financial information reported to the public and the Federal government is supported by appropriate records and controls. The State received "clean" opinions in the FY 2008 audits, but significant control deficiencies were found and brought to the attention of management. Although we contract with an independent auditing firm to perform much of the work associated with these audits, our staff also provide significant support to these efforts with their time (over 3,000 hours for the FY 2008 audit) and expertise.

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## Other External Activities

Although our audit reports provide our most visible results, the SAO provides many other valuable services. For example, in FY 2009:

- The State Auditor provided technical advice to the Legislature and Executive Branch as they worked on developing strategies for a performance measurement and accountability architecture for the State. This technical advice was based on our performance measurement audit work performed at specific state entities and research into the effectiveness of strategies employed by other states that had faced budget deficits.
- We reviewed Orange County's internal controls over disbursements and related policies and procedures after being contacted by concerned citizens and County personnel. We found that many financial transactions of the County were not being handled in a fiscally prudent manner, putting the County at risk for inappropriate expenditures and financial reporting misstatements. Accordingly, we recommended a variety of actions to improve the internal controls and financial competence of the organization, including implementing segregation of duties, instituting clearly written comprehensive policies and procedures, utilizing accounting expertise and improving the monitoring of the financial transactions of the County. Based on subsequent work, we found that Orange County has aggressively

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worked toward implementing our recommendations and has greatly improved its financial functions.

- We responded to a wide variety of inquiries, including schools' use of State purchasing contracts, State autism funding estimates, and the financial reporting process related to the Professional Regulatory Fee Fund. For example, the Vermont Board of Nursing and the Office of Professional Regulation asked for our help in looking at the fiscal accounts of the Nursing Board. Based on a limited review of the fiscal accounts we concluded there appeared to be sufficient monitoring and review to detect a material misstatement in the Board of Nursing's fund balance. Nevertheless, we also found areas that warrant improvement and made recommendations to that end.
- On four occasions, the State Auditor and Deputy State Auditor trained 64 municipal officials (in total) on (1) the function of audit and finance committees and (2) using the financial statement audit as a management tool. These are important topics that are designed to assist municipal officials in improving their understanding of major financial functions which, in turn, facilitates better decision-making. The officials' evaluations of these sessions were generally favorable.
- We helped several municipalities resolve a variety of management or financial issues by providing an independent viewpoint and technical expertise. For example, one town's Treasurer requested that we attend a special Select Board meeting that was being called to address perceived overspending of the town's budget by about \$300,000. We attended the meeting and provided recommendations for a course of action to be taken to document what had happened and validate or dispel the allegation. After the meeting, we continued to assist the town in addressing this issue until it was resolved. (Although the expenditure was recorded incorrectly, it was spent as intended and the budget was not overspent.)
- Although a non-voting member, the State Auditor or designee provided technical advice to the University of Vermont's Audit Committee and Vermont Student Assistance Corporation's Audit Committee to improve the auditing and the audit committee functions at these entities. This advice took various forms, including (1) helping to interview audit firms as part of assessing which firm would be selected to conduct the annual financial statement and federal

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# FY 2009 Performance Report

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compliance audits, (2) reviewing and providing comments on the audit committee charters, and (3) reviewing resumes and helping to interview candidates for the University of Vermont's Chief Internal Auditor position in order to provide the University with a professional audit perspective of the candidates' skills.

- At the request of the Office of the Attorney General, we provided support in investigations of alleged municipal fraud.

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## Internal Improvement Projects

Fiscal year 2009 was a transition year for the SAO as we moved from financial statement auditing to performance auditing. This change necessitated several major internal changes and improvement activities.

- **Successful turnover of financial statement audit to KPMG.** Although we contributed a significant number of hours to this contract to keep costs down, KPMG bore the overall responsibility of the audit and contributed the bulk of the staff time. Importantly, the KPMG/SAO partnership resulted in the financial statement audit opinion being issued within statutory timeframes. Moreover, the KPMG contract has had significant benefits to the SAO and the state as a whole. In particular, audit efficiencies were derived by having a single entity be responsible for both the financial statement audit and the Single Audit. In addition, with a large firm being responsible for the financial statement audit rather than our small office, we have substantially reduced our risks due to staffing limitations while also taking advantage of the specialized accounting knowledge available in a large firm (e.g., accounting for pension liabilities and pollution remediation, etc.).
- **Training and professional standards development.** During FY 2009 all SAO staff members received training in performance auditing. In addition, policies and procedures were drafted for performance audits that were tested throughout calendar year 2009.

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## Appendix I

### List of FY 2009 Products

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#### Single Audit and CAFR Related Products

Auditors' Report as Required by OMB Circular A-133 and Related Information (December 23, 2008)

<http://auditor.vermont.gov/uploads/1237913828.pdf>

CAFR Audit Opinion (December 23, 2008)

<http://auditor.vermont.gov/uploads/1230665668.pdf>

Management Letter of Observations and Recommendations (December 23, 2008)

<http://auditor.vermont.gov/uploads/1251734584.pdf>

Internal Controls: Results of Review at the Agency of Administration (September 8, 2008)

<http://auditor.vermont.gov/uploads/1220985359.pdf>

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#### Performance Audits

Department of Buildings and General Services: Performance Measurement System Could Be Improved (June 29, 2009)

<http://auditor.vermont.gov/uploads/1246903794.pdf>

Agency of Transportation Rail Report: Vermont Agency of Transportation Rail Section Contract Audit (December 5, 2008)

<http://auditor.vermont.gov/uploads/1228481294.pdf>

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#### Other Written Products

Schools' Use of State Purchasing Contracts: Observations on Vermont School Districts' and Supervisory Unions' Use of State Purchasing Contracts (April 22, 2009)

<http://auditor.vermont.gov/uploads/1240416765.pdf>

Report on State Funds for Autism (February 9, 2009)

<http://auditor.vermont.gov/uploads/1235735859.pdf>

Letter to the Vermont State Nursing Board (January 23, 2009)

<http://auditor.vermont.gov/uploads/1236958338.pdf>

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Litigation Report for Calendar Year 2008 (January 16, 2009)

<http://auditor.vermont.gov/uploads/1232116247.pdf>

Orange County: Results of a Review of Internal Controls over the Disbursements Process and Related Policies and Procedures (October 22, 2008)

<http://auditor.vermont.gov/uploads/1224690267.pdf>