



Vermont State Auditor

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January 2011

FY 2010-2012 Strategic Plan  
and  
FY 2010 Performance Report

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**Vermont State Auditor**

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STATE AUDITOR**



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

January 20, 2011

The auditing profession is often thought to be filled with “number crunchers” that spend their days scouring through financial data making sure that accounting standards are being followed and that columns of numbers are added correctly. Although this is certainly part of what we do, it is only one side of our profession. To illustrate, one of the main focuses of my office is to look at how well the State is providing its services. In other words, we look at the performance—both financial and nonfinancial—of a program, system, or organization. These types of audits are called performance audits.

I bring performance audits to your attention because they are an extremely important product of the State Auditor’s Office. For example, in fiscal year 2010 our performance audits have evaluated whether (1) three State organizations know if their programs are meeting their goals, (2) the State’s sex offender registry is reliable, and (3) effective controls are in place to prevent duplicate vendor payments.

The increased devotion of the limited resources of my office to performance auditing demonstrates my commitment to increasing the value of our audit work to Vermont citizens. My vision is that our office will not only know and convey in public reports the cost of State programs and organizations, but also their value and, when warranted, to make meaningful recommendations to improve their efficiency and effectiveness. This vision is conveyed in the strategies outlined in the strategic plan contained in this document.

Our strategic plan and the performance report for the past fiscal year (fiscal year 2010) that are contained in this document fulfill, in conjunction with our fiscal year 2012 budget request, the requirements of 32 VSA §307(c). I invite you to visit our website ([www.auditor.vermont.gov](http://www.auditor.vermont.gov)) to look at the audit reports that we reference in this document 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

ARRA	American Recovery and Reinvestment Act
CAFR	Comprehensive Annual Financial Report
CY	Calendar year
FY	Fiscal year
SAO	State Auditor's Office

# FY 2010-2012 Strategic Plan

(FY 2011 updates are underlined)

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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; and
- 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.

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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).

Historically, the number of audit staff members in the SAO varies from 8-10. During fiscal year 2010, the SAO had 8 staff auditors. 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 five 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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## 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

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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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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 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.

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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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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, we do not yet know with certainty the number of programs that will be subject to audit as a result of ARRA funding during the entire period covered by this Strategic Plan. However, the FY 2010 audit (performed and funded in FY 2011) included 30 programs or around double the number of programs typically audited.<sup>4</sup> We expect that the FY 2011 audit (performed and funded in FY 2012) may encompass even more programs. 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.

<sup>4</sup>The number of programs audited generally ranges from 15 to 18.

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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

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

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## **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 an annual update of State entity corrective actions performed to address audit recommendations beginning in calendar year 2010.

Recommendation follow up will be performed for performance audits that were issued 2 and 4 year prior to the calendar year (e.g., the follow up in 2010 would be for reports issued in calendar year 2006 and 2008).

## **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 70

FY 2012 70

## **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 training provided by the SAO 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 or the equivalent number if another scale is used.

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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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# FY 2010-2012 Strategic Plan

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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 2010 Performance Report

# FY 2010 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?

## FY 2010 Quantitative 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 2010 Performance Results**

Measure	FY 2009 Actual	FY 2010		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	35%	50%	48%	<b>Target not met.</b> Although we missed our target by 2 percent, we significantly increased the percentage of staff time devoted to performance audits, which indicates that our plan to shift the resources of the SAO to more performance auditing is on track.
Measure 1b: Number of performance audit reports issued	2	5	6	<b>Target exceeded.</b>
Measure 1c: Percentage of performance audit reports with recommendations to achieve cost savings and improve operational effectiveness and efficiency	100%	80%	83%	<b>Target exceeded.</b>
Measure 1d: Percentage of audit recommendations to State entities implemented within 2 years and 4 years	n/a	50% - 2 years 75% - 4 years	84% - 2 years 67% - 4 years <sup>a</sup>	<b>Targets partially met.</b> This is the first year of tracking this measure in which we followed up on whether recommendations issued in our 2008 and 2006 reports had been implemented. Since our more recent reports had the better implementation rate, we do not believe that corrective actions are needed at this time.
Goal 2: Foster Improved Communication and Management Across All Levels of Government				
Measure 2a: Number of responses to legislative, government, and citizen inquiries	70	110	76	<b>Target not met.</b> Given our current resources, funding model, and priorities, we have concluded that the target set for this measure was neither realistic nor desirable. Accordingly, we reduced the targets for FY 2011 and 2012 in our strategic plan.

# FY 2010 Performance Report

Measure	FY 2009 Actual	FY 2010		Analysis/Commentary
		Target	Actual	
Measure 2b: Number of SAO presentations to governmental institutions or to members of professional organizations	15	14	18	<b>Target exceeded.</b>
Measure 2c: Number of attendees at SAO-sponsored training and workshops	279	200	132	<b>Target not met.</b> At this time we attribute the low number of attendees to our largest training course—the Governmental Accounting and Auditing Symposium—to the fiscal problems facing many local governments. Nevertheless, we plan to monitor the number of attendees at our June 2011 symposium to determine whether a trend is emerging. If it appears that the FY 2010 numbers were the beginning of a negative trend, we will consider taking additional actions, like increased advertising, to improve attendance.
Measure 2d: Percentage of attendees at training provided by the SAO that indicated a high satisfaction level <sup>b</sup>	74%	85%	87%	<b>Target exceeded.</b>
<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>c</sup>	100%	100%	100%	<b>Target met.</b>
Measure 3b: Number of repeat Single Audit findings <sup>c</sup>	8 <sup>d</sup>	7	Unk	<b>Unknown.</b> At the time that this report was finalized, the actual or estimated number of repeat Single Audit findings was not available.
Measure 3c: Number of Single Audit re-audits (except Medicaid) <sup>c</sup>	10 <sup>d</sup>	4	15 <sup>e</sup>	<b>Target not met.</b> The increase in federal programs audited due to ARRA funding has resulted in a corresponding increase in the number of reaudits. We have informed the new Administration of this issue and will work with them on building awareness and a commitment to reverse this trend.

<sup>a</sup>These figures represent recommendations in which at least partial implementation was achieved. The implementation of the recommendations in one 2006 report was not assessed because the program was discontinued by legislative action subsequent to the report's issuance.

<sup>b</sup>The title for this measure was changed in FY 2010 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>c</sup>Measure 3a relates to the audit reports that were issued in FY 2010 (reflecting FY 2009 results) while measures 3b and 3c refer to the Single Audit's FY 2010 results.

<sup>d</sup>These numbers were revised from those contained in the FY 2009 performance report, which were based on estimates. These figures are the actual results.

<sup>e</sup>This number is an estimate 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 2010 Performance Report

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## Qualitative Accomplishments

Our performance numbers only tell part of the story of our office's accomplishments in fiscal year 2010. Qualitatively, our work had many positive outcomes for the state and local governments as well as for our internally-focused activities. First, several recommendations from prior reports have been implemented by the auditee. Second, our primary work product—our audit reports—have led to additional findings and recommendations intended to improve organizations' operations. We also carried out other external activities, such as providing assistance and our perspective to state organizations, municipalities, and other audit organizations. Lastly, we finalized our Professional Standards Manual (posted on our website), which formalized the processes and procedures that we had started to put in place in fiscal year 2009.

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## Implemented Recommendations

Recommendations are an extremely important mechanism by which we fulfill our mission. Through the implementation of our recommendations, the State can save money, employ safeguards against fraud, waste, and abuse, and implement more effective processes, policies, and procedures. For example,

- The Department of Vermont Health Access reported that, in response to our recommendation,<sup>1</sup> it hired a contractor to perform post-payment analyses of Medicaid pharmacy payments to determine whether it has made improper payments. This department is still in the process of investigating some of the results of the contractor's analyses, but it reported that \$360,000 in improper payments have been identified of which it has recouped about half.
- The Agency of Transportation has taken a variety of actions in response to our report on procurement issues related to the agency's rail program that provide additional safeguards that protect the State from fraud, waste, and abuse with respect to contracting, inventory control, and revenue collection.<sup>2</sup>

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<sup>1</sup>*Medicaid: Audit Identifies \$2.2 Million in Questioned Pharmacy Claims* (Report No. 06-04, December 28, 2006).

<sup>2</sup>*Agency of Transportation Rail Report: Vermont Agency of Transportation Rail Section Contract Audit* (Report No. 08-12, December 5, 2008).

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# FY 2010 Performance Report

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- The Department of Public Safety and the Vermont Economic Progress Council have implemented mechanisms to improve grant management and processes for approving and calculating economic incentives for the Vermont Employment Growth Incentive program, respectively.<sup>3</sup>
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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 (a list of our external written products can be found in appendix I.):

- We reviewed the reliability of the State's sex offender registry as well as the controls that were put in place to prevent errors, omissions, and outdated data. With respect to the reliability of the Registry's data, we found a sizeable number of critical errors. These errors resulted in offenders that (1) were erroneously registered; (2) were registered for longer than statutorily required; (3) had their registrations expired prematurely; (4) should have been posted to the Internet, but were not; and (5) had their records erroneously posted to the Internet. In addition, the processes used to submit and enter data into the Registry were largely manual and controls were not always documented or consistently applied. As a result of the audit, each of the organizations that were involved in providing and entering data into the Registry made changes that are expected to improve the Registry's reliability. In addition, each of these organizations has agreed to implement the recommendations made in this report.
- Given the high dollar value and volume of payments made by the State and potential for erroneous payments, our office performed an audit focusing on detecting certain kinds of improper payment. Overall, we found that most departments we reviewed had implemented many of the accounts payable internal control best practices recommended by the Department of Finance and Management. Eighty percent of the departments implemented four or more of the six internal controls we evaluated. Although many departments adopted some good internal controls, there is room to improve the strength and consistency of internal controls across State

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<sup>3</sup>*Department of Public Safety Grants Management: Review of Awards to Three Sub-Grantees* (Report No. 06-01, February 22, 2006) and *Vermont Employment Growth Incentive: Compliance Audit Pursuant to 32 V.S.A. §163(12)(B)* (Report No. 08-08, June 12, 2008)

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departments and we recommended ways to achieve such improvements. In addition, using automated data mining techniques, we identified \$265,000 in duplicate payments made in 2007 and 2008.

- In FY 2009, we began a series of performance audits evaluating the performance measurement systems of several departments. In FY 2010 we completed two of these audits, at the Department of Motor Vehicles and the Department of Economic Development and Vermont Economic Progress Council. In both of these cases we found that their strategic planning and performance measurement processes warranted improvement. Accordingly, we made recommendations to assist in these areas.
- The FY 2009 financial statement audit and Single Audit were completed on time in December 2009 and March 2010, respectively. The State received “clean” opinions, but material weaknesses and 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 (about 2,000 hours for the FY 2010 audit) and expertise.

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## Other External Activities

Although staff resources are largely devoted to audits, the SAO provides many other valuable services as time and resources allow. For example,

- During the course of a year, the SAO receives numerous requests for assistance from municipalities. In some cases there is an ongoing dispute in a town and we facilitate its resolution while in other cases we provide expertise or a sounding board to help address technical financial management issues. For example, the City of Montpelier was facing a crisis in public confidence as a result of a substantial overpayment to a contractor that had gone out of business. At the city’s request, the State Auditor began to attend public meetings related to this issue and agreed to act as a facilitator to a Citizen’s Financial Review Committee. This Committee, with the State Auditor’s assistance, addressed citizens’ concerns about how the overpayment was being handled and the city’s accountability to its citizens. This work ultimately helped to reduce the level of strife in Montpelier related to the overpayment.

In FY 2010 we introduced a new product, called a situation report, to

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# FY 2010 Performance Report

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record our response to these types of municipal issues when warranted. A situation report is not an audit and expresses no opinion or conclusions. Instead it is a tool that is used to gather relevant information and inform citizens and management of the issues involved in the topic under consideration. We issued our first situation report in May 2010, which dealt with an impasse that had arisen between the town treasurer and selectboard on a variety of issues in Williamstown.

- At the request of the Secretary of the Agency of Administration, the SAO provided a representative to the meetings of the Vermont Office of Economic Stimulus and Recovery and provided an auditor's perspective on the issues facing the state on accounting and reporting on the use of ARRA funds. By agreeing to take this role, the Office was able to bring potential audit concerns to the attention of management so that they could be dealt with in a proactive manner rather than after the fact.
- Other auditors in Vermont and elsewhere expressed a keen interest in learning more about the audit approach that we used in our improper payment engagement. Of particular interest has been our use of IDEA, an automated data analysis tool. We shared our audit methodology and lessons learned on the use of the tool in presentations before the New England Intergovernmental Audit Forum and Vermont's Statewide Auditor's Group.

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## Internal Improvement Projects

Fiscal year 2010 was the first full year of performance auditing for most of the SAO's audit staff. In addition to completing twice as many of these types of audits as we have in the past we also finalized and posted on our website our new Professional Standards Manual, which formalized the processes and procedures that we had started to put in place in the prior fiscal year. This new manual has led to more consistency in how we approach our audits as well as provided a framework to document our compliance with generally accepted government auditing standards.

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## Appendix I

### List of FY 2010 Products

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#### Single Audit and CAFR-Related Products

Auditors' Report as Required by OMB Circular A-133 and Related Information (March 24, 2010)

<http://auditor.vermont.gov/sites/auditor/files/19521StateofVermont-A133-609-FINAL.pdf>

CAFR Audit Opinion (December 17, 2009)

[http://auditor.vermont.gov/sites/auditor/files/2009\\_CAFR\\_FINAL.pdf](http://auditor.vermont.gov/sites/auditor/files/2009_CAFR_FINAL.pdf)

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#### Performance Audits

Sex Offender Registry: Reliability Could Be Significantly Improved (June 25, 2010)

[http://auditor.vermont.gov/sites/auditor/files/Final\\_SOR\\_report.pdf](http://auditor.vermont.gov/sites/auditor/files/Final_SOR_report.pdf)

Improper Payments: Internal Control Weaknesses Expose the State to Improper Payments (June 4, 2010)

<http://auditor.vermont.gov/sites/auditor/files/Improper%20Payments%20Report%20-%20Internal%20Controls.pdf>

Improper Payments: Results of Review of VISION Payments Made During 2007 and 2008 (June 4, 2010)

<http://auditor.vermont.gov/sites/auditor/files/Improper%20Payments%20Report%20-%20Actual%20Results.pdf>

Auditor's Survey of Shared Services in Vermont School Systems (December 17, 2009)

[http://auditor.vermont.gov/sites/auditor/files/OF\\_SHARED\\_SERVICES\\_in\\_Vermont\\_School\\_Systems.pdf](http://auditor.vermont.gov/sites/auditor/files/OF_SHARED_SERVICES_in_Vermont_School_Systems.pdf)

Department of Economic Development and Vermont Economic Progress Council: Enhancements to Performance Measurement Systems Could Be Made (September 14, 2009)

[http://auditor.vermont.gov/sites/auditor/files/DED-VEPC\\_Report\\_-\\_Final.pdf](http://auditor.vermont.gov/sites/auditor/files/DED-VEPC_Report_-_Final.pdf)

Department of Motor Vehicles: Performance Measurement System Could Be Enhanced (July 22, 2009)

[http://auditor.vermont.gov/sites/auditor/files/DMV\\_FinalReport.pdf](http://auditor.vermont.gov/sites/auditor/files/DMV_FinalReport.pdf)

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## Appendix I

### List of FY 2010 Products

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#### Other Written Products

Summary of Audit and Review Findings – FY 2009 and FY 2010 Thru December 2009 (March 18, 2010)

<http://auditor.vermont.gov/sites/auditor/files/Legislative%20report%20of%20fy09%20findings.pdf>

Litigation Report: As Required by Act No. 80, Sec. 22a of the Vermont General Assembly, 2007-2008 Session (January 15, 2010)

[http://auditor.vermont.gov/sites/auditor/files/LITIGATION\\_REPORT\\_\\_01\\_15\\_2010\\_FINAL.pdf](http://auditor.vermont.gov/sites/auditor/files/LITIGATION_REPORT__01_15_2010_FINAL.pdf)

Office of the Vermont State Auditor 2009 Annual Report (Fall 2009)

<http://auditor.vermont.gov/sites/auditor/files/2009%20annual%20report.pdf>