



Vermont State Auditor

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January 6, 2012

FY 2010-2012 Strategic Plan  
and  
FY 2011 Performance Report

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

January 6, 2012

What is the value of a state audit organization? There are many opinions on the answer to this question. Some look to an audit office to provide an objective opinion on whether financial data being reported is a fair representation of the transactions and financial position of the state or whether its activities comply with laws and regulations. Others see more value in the recommendations for program and process improvements and the opportunities for savings that can be identified through performance audits. Still others view the deterrent effect of audits on potential fraudsters as a tremendous benefit.

Although we are a small office, we have managed to fulfill all of these roles through the prudent use of contracts and the careful distribution of our staff. This strategic plan and performance report summarizes how we measure our performance in these and other areas. This type of performance reporting demonstrates my commitment to transparency and I welcome any comments that you may have regarding my office's strategic direction and/or the fulfillment of our goals.

Our website ([www.auditor.vermont.gov](http://www.auditor.vermont.gov)) contains an electronic version of this document and those of prior years, reports that we reference in this document, budget documents, and other information on our office's operations. Paper copies of this document can also be requested from my office via the contact information below. I also invite you to call or email me if you have any questions.

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
DVHA	Department of Vermont Health Access
ENVY	Entergy Nuclear Vermont Yankee
FY	Fiscal year
SAO	State Auditor's Office
SVSU	Southwest Vermont Supervisory Union
TIF	Tax Increment Financing

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# Overview

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The purpose of this document is to convey the performance of the State Auditor's Office (SAO) to the General Assembly and the public at large. It covers all major functions of the SAO (e.g., performance and financial audits, catalyst for good government at the state and local levels) and fulfills, in conjunction with our fiscal year 2013 budget request, the requirements of 32 VSA §307(c).

There are two main sections of this document—our current strategic plan and performance report for the most recent state fiscal year. While each section can be viewed as a stand-alone document, together they complete our performance measurement circle in that they identify and explain our expectations as well as the extent to which these expectations were achieved.

The strategic plan section provides the overall basis of how we measure our value to the citizens of Vermont. It outlines the primary functions of the SAO, conveys the goals that we seek to achieve, and explains how we measure progress. The mission statement and guiding principles contained in the plan were developed based on a facilitator-led meeting of all SAO staff. The goals, measures, and targets in this document were developed by the SAO management team. In developing the goals and measures, the management team 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 the use of these resources.

Our strategic plan covers a three-year period. We look at this plan on an annual basis and refresh the information contained therein as needed (all changes are underlined). Once the three-year cycle is complete, our office will start with a "blank sheet of paper" and will again perform an analysis of our mission and functions. This, in turn, will lead to the development of new goals, measures, and targets.

Our performance report section summarizes the extent to which we achieved the performance targets in our strategic plan for each goal and measure for fiscal year 2011. Equally important are the qualitative effects of our actions for this same fiscal year, which are also addressed in the performance report. Qualitative effects speak to the accomplishments of our office as it relates to a variety of stakeholders (e.g., state and local governmental organizations).

# FY 2010-2012 Strategic Plan

(FY 2012 updates are underlined)

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# 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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# FY 2010-2012 Strategic Plan

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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 four years.

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## Staffing

The number of positions that the SAO is authorized to carry is 14, 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 the course of fiscal year 2011, the SAO employed 8-9 staff auditors. The office has emphasized hiring audit staff with strong academic backgrounds and relevant certifications. Accordingly, all of the audit staff members have bachelor's 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 three 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 Uncertainties

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 2011 audit (performed and funded in FY 2012) included 31 programs or around double the number of programs typically audited.<sup>4</sup> We expect that the FY 2012 audit (performed and funded in FY 2013) will encompass a few less programs. Funding for our contract for the Single Audit has reflected changes due to ARRA funding. 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.

The damage inflicted by the August 2010 Tropical Storm Irene will have an as yet undetermined effect on our FY 2012 activities. The most certain effect will be that the federal dollars associated with the cleanup and remediation of the damage may result in additional programs audited as part of the Single Audit to be performed in fiscal year 2013. The less certain effect relates to the significant damage sustained by the state's Waterbury Complex. This damage resulted in the operational disruption of major state organizations

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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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(e.g., Agency of Human Services and Agency of Natural Resources), displacement of staff, and the potential loss of documentation stored at the site. Because our work relies on access to management, staff, and documentation, the disruption and damage caused by Tropical Storm Irene could have a detrimental effect on our work. Although it is unlikely that we will not be able to perform our planned audits, they may take more time to complete or have scope limitations because of the difficulties associated with the recovery from the storm.

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

The SAO strives to promote and facilitate efficiency and economy in government through the use of performance auditing, a major initiative of our office. This goal is intended to both determine our progress in implementing performance auditing as well as to assess the results of the audits themselves.

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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.

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## **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 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

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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 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 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 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 two and four years.

### **Targets**

#### % Implemented Within Two Years

CY 2010 50%

CY 2011 50%

CY 2012 50%

#### % Implemented Within Four 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 two and four years prior to the calendar year (e.g., the follow up in 2010 would be for reports issued in calendar years 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

As a catalyst for good government, the SAO provides independent and objective information and views on a variety of topics to officials in state government, municipalities, schools, and private citizens. This goal was established to encourage our staff to make its expertise widely available to facilitate greater understanding of complex government programs and operations as well as to communicate best practices.

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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 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

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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 members 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.

### **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

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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 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.
- 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**

The timely completion of financial audits is a critical part of our statutory responsibilities and mission. The purpose of this goal is to ensure that the

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<sup>5</sup>High satisfaction level is defined as respondents who reported a satisfaction level of four or five on a five-point scale or the equivalent number if another scale is used.

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SAO preserves its focus on these audits even though contractors are used to perform the work.

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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.

### **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

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

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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 three-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.

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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.

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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.

# FY 2011 Performance Report

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# FY 2011 Performance Report

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## Executive Summary

We annually measure our performance both quantitatively and qualitatively on a fiscal year basis. 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. In FY 2011 we exceeded our expectations in several areas. Most notably, our major initiative to refocus our office on performance audits is on track while at the same time the mandated financial audits have been issued on time. These achievements are tempered by our missing the targets related to organizations' responses to our audits (the percentage of recommendations implemented and the number of reaudits). Because these measures rely on the actions of other organizations we can influence, but not mandate, that improvements be made. Nevertheless, we plan to take action, such as more frequent communication, to persuade the applicable organizations to increase the implementation of our recommendations and reduce the number of reaudits because it will (1) improve government operations and (2) reduce the cost of some audits.

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? The audit reports issued in FY 2011 uncovered non-compliance with statutes and federal regulations, unreliable reports and data at the Department of Corrections, and opportunities to achieve significant savings at a supervisory union. We also looked back to recommendations issued in 2007 and 2009 reports and found that organizations had made major strides in implementing post-payment reviews of Medicaid payments through data mining as well as in strategic planning and performance measurement.

# FY 2011 Performance Report

## FY 2011 Quantitative Target Achievement

Table 1 summarizes the extent to which we met our performance targets for each goal and measure in our strategic plan and what actions we plan to take to improve our performance, where applicable. The activities of 100 percent of our staff and contractor resources, which constitutes about 95 percent of our fiscal year 2011 expenditures,<sup>8</sup> are covered by the goals and measures.

Actual results in the table are derived from various internal SAO data sources (e.g., our databases that track staff utilization and the status of report recommendations) and contain no data known to be inaccurate or misleading. Documented methodologies were used to derive the actual results and these methodologies were consistent in each year shown. The calculations of actual results were performed by a member of the SAO staff and validated by a second staff member.

**Table 1: Summary of FY 2011 Performance Results**

Measure	FY 2009 Actual	FY 2010 Actual	FY 2011		Analysis/Commentary
			Actual	Target	
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%	48%	64%	50%	<b>Target exceeded.</b>
Measure 1b: Number of performance audit reports issued	2	6	4	6	<b>Target not met.</b> This target was not achieved because (1) one audit project was cancelled because we could not resolve data reliability concerns and (2) unexpected legal questions arose on our four audits of tax increment financing districts, which caused the reports to be delayed. We believe that our targets for this measure are reasonable and anticipate meeting them in the upcoming year.
Measure 1c: Percentage of performance audit reports with recommendations to achieve cost savings and improve operational effectiveness and efficiency	100%	83%	100%	80%	<b>Target exceeded.</b>

<sup>8</sup>Our fiscal year 2011 expenditures were about \$3.4 million, of which about \$3.2 million pertained to staff salaries and benefits and contractors used to perform audits and other types of reviews.

# FY 2011 Performance Report

Measure	FY 2009 Actual	FY 2010 Actual	FY 2011		Analysis/Commentary
			Actual	Target	
Measure 1d: Percentage of audit recommendations to state entities implemented within two years and four years <sup>a</sup>	Not tracked	84% - CY 2008 reports 67% - CY 2006 reports	46% - CY 2009 reports 69% - CY 2007 reports	50% - CY 2009 reports 75% - CY 2007 reports	<b>Targets not met.</b> The accomplishment of these targets is dependent upon actions taken by state organizations. To further influence these entities, we plan to increase our communications subsequent to report issuance to emphasize our continued interest in the topics in which we made recommendations.
Goal 2: Foster Improved Communication and Management Across All Levels of Government					
Measure 2a: Number of responses to legislative, government, and citizen inquiries	70	76	70	70	<b>Target met.</b>
Measure 2b: Number of SAO presentations to governmental institutions or to members of professional organizations	15	18	18	15	<b>Target exceeded.</b>
Measure 2c: Number of attendees at SAO-sponsored training and workshops	279	132	243	200	<b>Target exceeded.</b>
Measure 2d: Percentage of attendees at training provided by the SAO that indicated a high satisfaction level <sup>b</sup>	74%	87%	75%	85%	<b>Target not met.</b> The results for this measure tend to fluctuate from year-to-year. At this time, we do not discern a pattern that would require action.
Goal 3: Maintain Sustained Attention to Completing Mandated Financial Audits in a Timely and Cost-Efficient Manner					
Measure 3a: Complete CAFR and Single Audit in accordance with timeframes mandated by statute <sup>c</sup>	100%	100%	100%	100%	<b>Target met.</b>
Measure 3b: Number of repeat Single Audit findings <sup>c</sup>	8	10 <sup>d</sup>	Unk	6	FY 2011 actual results are not available because the Single Audit had not been completed at the time of this report.
Measure 3c: Number of Single Audit re-audits (except Medicaid) <sup>c</sup>	10	18 <sup>d</sup>	15 <sup>e</sup>	4	<b>Target not met.</b> The increase in reaudits is largely attributed to federal programs that were audited, sometimes for the first time, due to ARRA funding. We have informed the Administration of this issue and will work with them on building awareness at the state agencies to facilitate sustained attention to corrective actions to reverse this trend.

<sup>a</sup>These figures represent recommendations in which at least partial implementation was achieved.

<sup>b</sup>Actual results 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 2011 (reflecting FY 2010 results) while measures 3b and 3c refer to the Single Audit's FY 2011 results.

<sup>d</sup>These numbers were revised from those contained in the FY 2010 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 number was not available as of the date of this report.

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# FY 2011 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 2011. Qualitatively, our work had many positive outcomes for the state and local governments. First, recommendations from prior reports have been implemented by the auditees that have resulted in positive changes. 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.

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## Implemented Recommendations

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. Our 2011 follow-up on recommendations made in 2007 and 2009 found many recommendations have been implemented and that benefits have begun to accrue. For example,

- Our 2007 report on Medicaid non-drug claims recommended that the Department of Vermont Health Access (DVHA) employ data mining as an ongoing tool for post-payment review. DVHA subsequently signed a contract to perform such analysis. DVHA reported that it has begun working with the contractor to utilize algorithms to identify billing errors, overpayments, duplicate payments, and other potential claim problems. DVHA believes that these activities will ultimately yield recoupment of overpaid claims and policy and payment system changes that lead to future savings. Our 2007 report also identified a variety of system and process weaknesses, which have since been corrected.
- Our three 2009 reports on performance measurement systems at four state entities contained recommendations to improve strategic planning, measurement processes, and progress reporting. All of the entities had begun to implement the recommendations and some made considerable progress. For example, the Vermont Economic Progress Council implemented all of the recommendations we made. The Council developed a strategic plan, developed efficiency measures, established targets for its measures, and improved its performance reporting to the General Assembly. Such actions help entities, such as

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# FY 2011 Performance Report

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the General Assembly, gauge the success and progress being made in accomplishing results with the resources being appropriated.

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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 issued the first of our performance audit reports on tax increment financing (TIF) districts, which are used by some municipalities to finance public infrastructure improvements in support of economic development. This report found that the city of Newport generally complied with state statutes, but the city miscalculated the total incremental property tax revenue generated by the TIF district and as a result owes the state's education fund \$81,612. In addition to recommending that the city arrange to pay the amount owed to the state's education fund, we also made recommendations designed to improve the city's administration of the TIF district.
- Our performance audit report on the Department of Corrections' supervision of sex offenders demonstrated the importance of our use of generally accepted government auditing standards. One of our objectives in this audit, to assess whether the caseloads of probation and parole officers were within statutory limitations, relied heavily on reports from Corrections' system. Generally accepted government auditing standards require that we evaluate the data reliability of computer-based data used to draw conclusions. We found significant errors in the Corrections' reports used to determine caseloads. Most of our recommendations were targeted toward improving the accuracy of information in the Corrections' system and the usefulness of the applicable reports.
- In April 2010, we hired MGT of America, Inc. to audit the delivery of services within the Southwest Vermont Supervisory Union (SVSU). The audit included reviews of the SVSU administration, human resources management, financial management and purchasing, food service, technology management, transportation, education, and special education programs and services. The resulting October 2010 report contains more than 60 findings and recommendations for the SVSU, which if implemented, should allow it to save more than \$2 million annually.

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# FY 2011 Performance Report

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- We have issued several reports on the state's current and previous economic development programs. Our latest report was issued in August 2010. The focus of this audit was to look at the extent to which the Department of Taxes has controls and processes in place to ensure that claims, payments, and recoveries related to the Vermont Employment Growth Incentive program were accurate, complete, and timely. In brief, we found that the Department of Taxes had established some internal controls to ensure that claims and payments were accurate, complete, and timely; however, the claims process could benefit from additional written procedures and documented supervisory review.
- The FY 2010 financial statement audit and Single Audit were completed on time in December 2010 and March 2011, 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) 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,

- At the request of five members of the Vermont General Assembly, we undertook a review of certain issues related to monitoring and managing the Entergy Decommissioning Trust Fund. Although this work did not constitute an audit, this report contained timely and relevant information to help further the public discourse related to the future of Entergy Nuclear Vermont Yankee (ENVY) and the monies put away for the eventual decommissioning and cleanup of the plant. Our work focused on (1) the state's method for monitoring whether the decommissioning trust fund will have sufficient assets in the future to cover the costs of site cleanup required by the state and (2) the system of controls that Entergy and the state established to safeguard the assets of the decommissioning trust fund
- 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

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# FY 2011 Performance Report

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financial management issues. In most cases we handle these requests informally—providing verbal advice or attending selectboard or schoolboard meetings to provide our perspective on an issue. In other cases the complexity or contentiousness of the issue requires a more detailed and formal response. In such circumstances we issue a situation report, which is a tool to gather relevant information and inform citizens and management of the issues involved in the topic under consideration. A situation report is not an audit. We issued five situation reports in FY 2011. These reports dealt with eclectic questions addressing diverse issues such as financial operations of a municipality or school district, passenger rail service, and the difficulties facing dairy farmers.

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## Appendix I

### List of FY 2011 Products

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#### Single Audit and CAFR-Related Products

Auditors' Report as Required by OMB Circular A-133 and Related Information (March 31, 2011)

[http://auditor.vermont.gov/sites/auditor/files/19521StateofVermont-A133-610\\_FINAL.pdf](http://auditor.vermont.gov/sites/auditor/files/19521StateofVermont-A133-610_FINAL.pdf)

CAFR Audit Opinion (December 20, 2010)

[http://auditor.vermont.gov/sites/auditor/files/2010\\_CAFR\\_FINAL.pdf](http://auditor.vermont.gov/sites/auditor/files/2010_CAFR_FINAL.pdf)

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#### Performance Audits

Tax Increment Financing: City of Newport Generally Complied with Statutes, But Miscalculated Payments to State (June 30, 2011)

<http://auditor.vermont.gov/sites/auditor/files/Newport%20TIF%20Audit%20Report-%20Final.pdf>

Sex Offender Supervision: Corrections' Caseloads Were Largely in Accordance with Statutory Requirements, but Monitoring Tools Could Be Improved (January 10, 2011)

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

Performance Audit of the Southwest Vermont Supervisory Union (October 25, 2010)

[http://auditor.vermont.gov/sites/auditor/files/4206\\_AUDIT\\_of\\_SVSU\\_FINAL\\_REPORT\\_cdl\\_102510.pdf](http://auditor.vermont.gov/sites/auditor/files/4206_AUDIT_of_SVSU_FINAL_REPORT_cdl_102510.pdf)

Vermont Employment Growth Incentive: Performance Audit of Claims Review Process (August 23, 2010)

[http://auditor.vermont.gov/sites/auditor/files/VEGI\\_Report\\_-\\_2010.pdf](http://auditor.vermont.gov/sites/auditor/files/VEGI_Report_-_2010.pdf)

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#### Other Written Products

2010 Annual Report (May 2011)

<http://auditor.vermont.gov/sites/auditor/files/Annual%20report%202010.pdf>

Situation Report—Bethel SD/WNWSU (March 2011)

[http://auditor.vermont.gov/sites/auditor/files/WNWSU\\_Sit\\_Rep\\_final\\_complete\\_4-13-11.pdf](http://auditor.vermont.gov/sites/auditor/files/WNWSU_Sit_Rep_final_complete_4-13-11.pdf)

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## Appendix I

### List of FY 2011 Products

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Situation Report—Barre City (March 18, 2011)

[http://auditor.vermont.gov/sites/auditor/files/Barre\\_City\\_Situation\\_Report\\_Final\\_22311.pdf](http://auditor.vermont.gov/sites/auditor/files/Barre_City_Situation_Report_Final_22311.pdf)

Summary of Audit and Review Findings – FY 2010 (February 15, 2011)

[http://auditor.vermont.gov/sites/auditor/files/Legislative\\_report\\_of\\_FY10\\_findings.pdf](http://auditor.vermont.gov/sites/auditor/files/Legislative_report_of_FY10_findings.pdf)

Situation Report—Obstacles, Opportunities, and Common Objectives Regarding Rail Passage and US/Canada Relationship (February 11, 2011)

<http://auditor.vermont.gov/sites/auditor/files/Rail%20situation%20report%20Feb.%202011.pdf>

Sexual Abuse Response System: Recommended Audit Strategy (January 28, 2011)

[http://auditor.vermont.gov/sites/auditor/files/final\\_SARS\\_audit\\_strategy.pdf](http://auditor.vermont.gov/sites/auditor/files/final_SARS_audit_strategy.pdf)

Audit Strategy for State Job Creation Programs (December 30, 2010)

[http://auditor.vermont.gov/sites/auditor/files/Job\\_Creation\\_Audit\\_Strategy.pdf](http://auditor.vermont.gov/sites/auditor/files/Job_Creation_Audit_Strategy.pdf)

Situation Report—Agriculture Business Advisory Project (October 19, 2010)

<http://auditor.vermont.gov/sites/auditor/files/Dairy%20Industry%20Crisis.pdf>

Situation Report: Citizen Summary-WNESU (September 2010)

[http://auditor.vermont.gov/sites/auditor/files/WNESU\\_summary\\_\\_\\_report.pdf](http://auditor.vermont.gov/sites/auditor/files/WNESU_summary___report.pdf)

Entergy Nuclear Vermont Yankee: Monitoring and Measurement of the Decommissioning Trust Fund (August 31, 2010)

<http://auditor.vermont.gov/sites/auditor/files/Entergy%20final%208%2031%202010.pdf>