Vermont State Auditor's Annual Report - 2011

March 2012

Message from Auditor Tom Salmon

State Auditor Thomas M. Salmon, CPA, CFE

I am often asked to explain what our office does, how we perform our audits, and the results of our work. I hope that you will find answers to these questions in this annual report.

First, let me explain what our office does. There are three major types of audits for which we are responsible – performance audits, the audit of the state's Comprehensive Annual Financial Report (CAFR), and the state's single audit (which looks at the usage of federal funds by the state). All of these audits focus on the accountability of the state to its citizens, from both a financial and service delivery perspective.

I'm particularly proud that we've successfully implemented performance auditing in our office because these audits provide valuable insight into whether government programs and operations are working effectively and efficiently and provide recommendations for improvements. I invite you to submit suggestions for future performance audits.

Next, we perform our audits in accordance with generally accepted government auditing standards, which are promulgated by the U.S. Government Accountability Office. Implementation of these standards ensures that our audit work and products are of the highest quality and uphold the principles of independence, objectivity, competence, and integrity. If you are interested in the nuts and bolts of how we perform our work, I invite you to peruse our Professional Standards Manual.

Lastly, let me speak about the results of our work. A quick synopsis can be found in our annual performance report. The most visible results are in the implementation of our recommendations. As you will see in our annual performance report, the most recent follow-up work on our recommendations showed that more than two-thirds had been implemented. As a result, the state has saved money, employed additional safeguards against fraud, waste and abuse, and improved its processes and procedures.

All of our reports and audits, forms and guides are online at auditor.vermont.gov. If you have any questions or concerns to bring to my attention, please feel free to call or write me at any time.

Sincerely,

Thomas M. Salmon CPA, CFE

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Special points of interest:

- Tropical Storm Irene devastation requires accurate reporting
- Embezzlement in Vermont tops SAO's list of critical issues
- City of Newport TIF audit results released
- SAO issues audit of Medicaid provider enrollment and claims controls

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Embezzlement prevention addressed by SAO, VMAC

In January, the auditor announced that he would work with the Vermont Municipal Advisory Commission to recommend embezzlement prevention and detection solutions to the Vermont Legislature by March 15, 2011.

"We have provided training to hundreds of municipal and school officials, facilitated solutions in dozens of towns but it is not enough" said Salmon, who is a former member of the Rockingham selectboard.

The group convened six times over eight weeks and developed tools to help cities and towns across the state identify situations that could be susceptible to risks of embezzlement. Among other things, the group reviewed the Vermont Professional Responsibility Board's "red-flag" questionnaire that helps root out financial problems in the offices of Vermont attorneys.

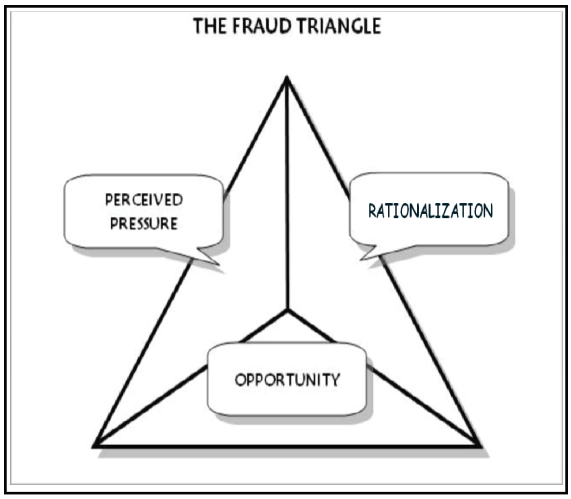
The Vermont Municipal Advisory Commission was established in 2007 to provide technical support to the auditor's office and other entities. The commission consists of members who have a combination of skills and respect from their peers.

"Vermont has suffered embezzlements totaling in the millions of dollars. It is unacceptable," Salmon said. "Most of these cases involve a long-term trusted employee, a weak control environment, and a lack of written procedures and duty segregation."

Salmon said he expects those charged with fiduciary responsibility such as selectboards and school boards will support new mechanisms for better internal controls.

"Vermont is a safe and trusting state. However, internal controls are required," Salmon said.

Members of VMAC are John Cushing, town clerk/treasurer in Milton; Lisa Barrett, CPA and town clerk/treasurer in Lyndon; John Leisenring, finance director in Brattleboro; Jeffrey Mobus, finance director in Springfield; Ruth Woodard, finance director in Manchester; Nicole Daigle, town clerk/treasurer in Derby, and Wendy Wilton, treasurer in Rutland City.



A panel discussion regarding the prevention of embezzlement and fraud was held at the annual June training sponsored by the State Auditor's Office and the Vermont League of Cities and Towns. From left is Tom Hughes, Wendy Wilton, Rutland City treasurer, Don Hewitt, State Auditor Tom Salmon and Don Keelan, CPA. Mr. Hughes and Mr. Hewitt spoke from experience as former embezzlers.

A job well done

State Auditor Tom Salmon presents John Leisenring of Brattleboro with a certificate of appreciation for his many years of work as finance director for the city of Brattleboro. John retired last summer.

Reports and audits issued by the SAO in 2011

All of the reports and audits listed below can be found on the auditor's web site at www.auditor.vermont.gov.

A-133 Single Audit 2010
Comprehensive Annual Financial Report 2010
Sex Offenders Supervision—January
Sexual Abuse Response Systems Recommended Audit Strategy—January
Report to Legislature on FY 2010 Audit Findings—February
Rail Situation Report—February
Barre City Situation Report—March
Windsor Southwest Supervisory Union & Bethel School District Situation Report—March
Newport TIF Audit—June
Litigation Report 2010—July
Alternative Revenue Sourcing (Bronner Group)—August &
ARS – Educational Addendum—September
Medicaid—September
Milton TIF Audit—January 2012
Medicaid Providers—January 2012

Auditor urged town officials to document expenses incurred from Tropical Storm Irene damages

In the wake of Tropical Storm Irene, State Auditor Tom Salmon urged state and local officials as well as flood victims to be mindful of the need for proper documentation necessary in order to receive the maximum amount of FEMA assistance and other reimbursements.

Salmon said, "We already know that insurance and FEMA will not cover 100 percent of the losses. Thorough documentation and photographs will help optimize financial recovery." Salmon recommended that towns assign individuals or volunteers with financial skills to begin collecting any and all paperwork related to possible reimbursements including time reports, labor reports, material lists, equipment rentals and contractor utilization reports that FEMA may fund.

"Ask questions. Figure out expectations about procurement. If you need to get information from FEMA, or the state organization of jurisdiction (Agency of Transportation, etc.), or anyone you expect reimbursement from, please do so in a timely manner," Salmon said.

In October, the auditor's office and the New England Municipal Resource Center (NEMRC) joined together to provide informational seminars for municipal officials regarding the accounting procedures required by FEMA and how to prepare for a FEMA audit. Also there to help out were Larry Arnold, FEMA's DHS OIG manager, CPA Fred Duplessis of Sullivan Powers Co. in Montpelier and Neale Lunderville, Vermont's Irene Recovery Officer.

According to NEMRC President Ernie Saunders the training sessions were designed to help indentify best practices, proper documentation and procurement, and optimal reimbursements.

"The seminars were designed to help define the expectations and pitfalls that may occur during the coming months and how we could plan to work together to make the best of a bad situation," Saunders said.

Salmon agreed, "It is critically important that we have a good process over the next two years to ensure towns do things right to optimize reimbursement. We don't want to find out later that a federal audit disallows project costs."

The seminars were held in Rutland and Fairlee.

A home in Sharon is swept downstream by floodwaters of Tropical Storm Irene in August 2011.

"Transparency, A Clear Direction" for 2011 NASACT Annual Conference

"Transparency, A Clear Direction" was the theme of the National Association of State Auditors, Comptrollers and Treasurers annual conference this year that attracted more than 350 attendees.

Held at the Hilton Hotel in Burlington in August 2011, the program boasted top names in the financial world and was attended by elected and appointed officials from all over the country.

Much consideration and planning went into shaping the technical portion into one that included dynamic speakers, provocative topics and information pertinent to issues facing government officials today.

A highlight of the event was a roundtable discussion among five of Vermont's governors. Gov. Peter Shumlin along with former Governors James Douglas, Howard Dean, Madeleine Kunin and Thomas P. Salmon engaged in a lively conversation as they reflected on the challenges they faced during their terms and shared advice our current leaders might apply to today's problems.

We were also honored to welcome general session speakers Ernest Almonte, former auditor general of Rhode Island; David Walker, founder of the Comeback America Initiative and former U.S. comptroller general; Dr. David Colander, an expert in recessionary economics and professor at Middlebury College; Charles Millard, head of Citigroup's Pension Relations Team; John Chiang, California state controller and Thomas DiNapoli, comptroller of the state of New York. They, along with almost 40 more concurrent session speakers, prepared thought-provoking material that triggered much debate and shed light on a multitude of relevant subjects.

The State Auditor's Office, State Treasurer's Office and the Vermont Department of Finance and Management were proud to host this event, which in addition to the technical program, included a golf tournament, 5K fun run, a dinner cruise on Lake Champlain and guest trips to Stowe and Shelburne.

(The conference logo was designed by David Burnell of the Vermont Department of Tourism and Marketing.)

AGA honors SAO with award for excellence

The Association of Government Accountants (AGA) honored the Vermont State Auditor's Office last spring with a Bronze Certificate of Achievement for its report entitled "FY2010-2012 Strategic Plan and FY2009 Performance Report."

AGA, based in Alexandria, VA, is an organization dedicated to serving government accountability professionals by providing quality education, fostering professional development and certification, and supporting standards and research to advance government accountability.

The AGA's Service Efforts and Accomplishments Reporting program encourages organizations to improve their performance reporting and each year publicly recognizes outstanding reports in that area.

Since State Auditor Tom Salmon was elected in 2006, the primary focus of the office has changed to performance auditing and this award is testimony to the outstanding accomplishments of the dedicated and capable staff.

"The office is proud of its efforts as a performance auditing workplace," Salmon said, "and will continue to strive toward higher achievements in performance reporting."

Audit of Medicaid shows improvements are needed

State Auditor Tom Salmon, CPA, CFE, in September released the results of an audit that looked at the Medicaid provider enrollment and claims controls.

The Medicaid program is one of the largest human service programs in Vermont. In fiscal year 2010, about $1.24 billion was expended on Vermont's Medicaid program with about $375 million coming from state funds.

Due to the programmatic, operational, and organizational complexity and significant federal and state funding, Medicaid programs are prone to fraud attempts by unscrupulous individuals.

"The first line of deterrence for such attempts is implementation of robust provider enrollment and claims controls within the Medicaid system. Our office wanted to ensure that Vermont had established, and was effectively operating, processes and controls designed to ensure that only legitimate providers are paid for services they are entitled to perform," Salmon said.

Overall, the audit found that the Department of Vermont Health Access (DVHA), the Department of Education and the state's fiscal agent, HP Enterprise Services (HPES) have implemented many provider enrollment and claims controls, but that improvements were needed in the areas of provider agreements, verification of credentials and other requirements for enrollment, verification against the excluded parties lists, and post-enrollment checks, among others.

There were about 420 providers that were enrolled with incorrect information, no longer met enrollment criteria or were deceased, including:

- 241 providers enrolled as residents at Dartmouth Hitchcock Clinic that were no longer affiliated with DHC;
- 67 providers enrolled as residents at Fletcher Allen Health Care that were no longer affiliated with FAHC;
- Nine providers were enrolled as physicians, but did not hold this license (instead, they were, for example, nurse practitioners or podiatrists);
- Five providers enrolled as active Medicaid providers were deceased.

These errors were corrected during the course of the audit and the Medicaid fiscal agent is conducting analysis regarding whether any payments were improperly made.

The audit report cited various reasons for these errors, including updates that were not occurring and a lack of post-enrollment checks on providers.

"Gaps like these can be inadvertently or intentionally exploited by providers not entitled to receive payments and can subsequently lead to waste of vital taxpayer dollars," Salmon said.

Other audit findings were related to the system used to administer the Medicaid program.

Although in general its logic and edits were sound, the system lacked some edits.

For example, the system did not capture the relationship between laboratory certification addresses and laboratory service locations. Without such system link or manual compensating controls, the program remains vulnerable to improper payments for laboratory services that a provider is not authorized to carry out at a particular location, according to Salmon.

In their responses to a draft of the audit report the departments of Vermont Health Access and Education were in general agreement with the recommendations in the report and cited tasks that they planned to undertake to improve their processes.

Salmon stated that implementation of our recommendations should give Vermont citizens added confidence that the state is taking reasonable measures to ensure that Medicaid payments are only made to legitimate providers and only for services they are authorized to perform.

The auditor noted the outstanding professionalism and cooperation of the personnel of the state agencies and HPES involved in this audit.

City of Newport TIF audit results released in June

The first of four planned audits that evaluate the state's current active Tax Increment Financing districts was released in June. State law requires that the state auditor audit all active TIF districts every four years.

The objectives of the audit included determining if the city of Newport's TIF district was established and administered according to statutory requirements. The audit also examined the extent to which the municipality established TIF performance measures and monitored the actual performance results to determine if the TIF district is meeting its intended goals.

Overall, the auditor's office found that Newport generally complied with state statutes, but miscalculated the total incremental property tax generated by its TIF district, resulting in the city owing money to the state's education fund.

The audit attributed the miscalculation to internal control weaknesses, such as the city's over-reliance on a single individual to manage the TIF district operations, and also to not having documented financial procedures in place. The city did not consistently track, monitor and report the TIF's results and there is not a mechanism in place that evaluates whether the TIF was meeting its intended goals.

It was recommended that Newport arrange to pay the amounts owed to the education fund and that the city designate an official to be responsible for developing, documenting and implementing a system to accurately calculate incremental property tax revenue. It was also recommended that this work be reviewed by another individual. The report also advised that an official be appointed who will have the responsibility to prepare the required annual municipal and state reports and to monitor TIF district performance.

"I am confident that implementation of our audit recommendations will help the city of Newport improve the TIF's overall management and provide for accurate measurement and reporting of the TIF's annual activity," Salmon said.

View of the city of Newport from across Lake Memphremagog.

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"From State Street to Main Street to School Street."

We're on the web:
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Directions

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SAO Mission Statement

The mission of the Vermont State 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.