



# Report of the Vermont State Auditor

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August 24, 2007

## VERMONT DEPARTMENT OF HEALTH – SELECTED BIOTERRORISM HOSPITAL PREPAREDNESS GRANTS

CONCERNS RELATED TO SUBRECIPIENT  
MONITORING AND PURCHASING,  
CONTRACTING AND TRAVEL EXPENSES

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**Thomas M. Salmon, CPA**  
**Vermont State Auditor**  
**RPT. No. 07-10**

### **Mission Statement**

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THOMAS M. SALMON, CPA  
STATE AUDITOR



STATE OF VERMONT  
OFFICE OF THE STATE AUDITOR

August 24, 2007

Governor James Douglas  
Speaker of the House of Representatives Gaye Symington  
President Pro Tempore of the Senate Peter Shumlin  
Secretary Cynthia D. LaWare, Agency of Human Services

Dear Colleagues:

The attached report discusses weaknesses in the subrecipient monitoring efforts by the Vermont Department of Health (VDH) over three selected sub-grants to the Vermont Association of Hospitals and Health Systems-Network Service Organization (VAHHS-NSO), and internal control deficiencies at the subrecipient.

VAHHS-NSO has received approximately \$2.3 million in federal grants from the State in recent years, with approximately \$900,000 targeted toward the National Bioterrorism Hospital Preparedness program since 2004.

VAHHS-NSO has been instrumental in helping the State address federal requirements to increase Vermont's capacity to respond to a range of public health care threats. But as a well-established professional non-profit organization in the State, it should have been more diligent with these funds. Our report notes that:

**The subrecipient did not competitively bid certain purchases and a personal services contract, and, though it should have been, was not fully aware of regulations regarding reimbursement for travel expenses, resulting in several apparent unallowable charges.**

This report also documents our findings that oversight by the Department of Health over the selected grants was weak in the following areas:

- **VDH did not provide VAHHS-NSO with specific guidance as to the set of Federal and State rules and regulations to follow in carrying out its grant obligations;**
- **VDH did not provide guidance such that significant purchases were carried out in an open, competitive manner so as to ensure the best value for the dollars expended; and**

- **VDH did not provide guidance such that only allowable charges were made to federal grants for telephone, lodging and meal expenses, and equipment ordered but not received.**

The VDH and VAHHS-NSO generally agree with these findings and have taken, or will soon take, a number of steps to improve their policies and procedures. For example, the Department of Health's Acting Commissioner noted that the Department will be implementing a newly revised subrecipient monitoring plan in response to the audit findings. VAHHS-NSO is strengthening its policies on procurement and travel expenses.

The State receives over \$1.2 billion per year in federal funds, and has committed to improving the monitoring of these funds, to ensure that they are spent and accounted for properly. It is my belief that the Department of Health and other state agencies will learn from this review and improve the accountability of federal funds passed through to subrecipient organizations.

Please feel free to contact me to discuss this report at any time. Thank you.

Sincerely,



Thomas M. Salmon, CPA  
Vermont State Auditor

cc: Michael K. Smith, Secretary, Agency of Administration  
James Reardon, Commissioner of Finance and Management  
Sharon Moffatt, Acting Commissioner, Vermont Department of Health  
Jan Westervelt, Audit Chief, Agency of Human Services

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# Contents

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## Report

Introduction	1
Highlights	2
Background	3
Scope & Methodology	4
Findings and Recommendations	6
Conclusion	17
Agency Comments and Our Evaluation	18
Appendix I: Response by the Vermont Department of Health	20
Appendix II: Response by the Vermont Association of Hospitals and Health Systems-Network Service Organization	23

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# Contents

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## Abbreviations in this report

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AHS	Agency of Human Services
CDC	Centers for Disease Control and Prevention
CFR	Code of Federal Regulations
FFY	Federal Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
GAO	Government Accountability Office
GSA	General Services Administration
HHS	Department of Health and Human Services
HRSA	Health Resources and Services Administration
OMB	U.S. Office of Management and Budget
PPE	Personal Protective Equipment
SAO	State Auditor's Office
SFY	State Fiscal Year
VAHHS-NSO	Vermont Association of Hospitals and Health Systems—Network Service Organization
VDH	Vermont Department of Health
VEM	Vermont Emergency Management

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## Introduction

The federal government has provided States with significant funding in response to emergency preparedness concerns raised by the Sept. 11, 2001 attacks and other major emergencies.

32 V.S.A. §163(11) provides the State Auditor's Office with authority to perform financial and compliance audits related to federal funds. The State received approximately \$1.2 billion in federal funds in State Fiscal Year (SFY) 2006, including approximately \$1.7 million for bioterrorism hospital preparedness.

In many instances, the State has passed federal funds to sub-grantees, or subrecipients, to carry out the objectives of the federal programs. Past audit reports from this Office have cited weaknesses in subrecipient monitoring by State agencies awarding the federal funds. As a result, the State has undertaken a range of steps, including the issuance of Bulletin No. 5, *Single Audit Policy for Subgrants; Compliance with OMB Circular A-133*.

The State Auditor's Office also received anonymous communication from three sources expressing concerns about the propriety of several significant purchases under the National Bioterrorism Hospital Preparedness grant program specifically related to the non-profit Vermont Association of Hospitals and Health Systems-Network Service Organization (VAHHS-NSO). We selected three recent VDH grants to VAHHS-NSO for this review.

The primary objective of this audit was to determine whether the Department of Health adequately monitored the subrecipient to ensure that selected program funds were used for necessary, reasonable, allocable, and allowable purchases in accordance with state, federal and specific grant guidelines.

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# Highlights: Report of the Vermont State Auditor

## Vermont Department of Health – Selected Bioterrorism Hospital Preparedness Grants: *Concerns related to subrecipient monitoring and purchasing, contracting and travel expenses*

(August 24, 2007, Rpt. No. 07-10)

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### Why We Did This Audit

The Vermont Department of Health, a division of the Agency of Human Services, receives federal funds from a number of sources, including HRSA and CDC, divisions of HHS.

Since 2004 the Dept. of Health has received \$5.7 million in federal funds for bioterrorism hospital preparedness, and additional funds for other preparedness programs. We selected three hospital preparedness grants from VDH to the Vermont Association of Hospitals and Health Systems, Network Service Organization, to review the Department's oversight of grant expenditures, and the subrecipient's procurement practices.

### What We Recommend

We recommend in this report that, among other actions, :

a. The Department of Health should include specific information in grant agreements about the relevant federal and state rules and regulations which apply to the award;

b. VDH should develop and utilize written monitoring plans which address the appropriate risk level of subrecipients, as recommended in VDH grant monitoring guidelines. VDH should provide general subrecipient monitoring including activities such as review of detailed invoices, measurement of performance goals, and validation of purchased inventories, as necessary.

c. VDH should provide guidance to VAHHS-NSO to ensure that the subrecipient has procurement policies and procedures that maximize the value of open competition.

### What We Found

This report documents our findings that primary oversight by the Department of Health over the selected grants was weak and did not:

- provide VAHHS-NSO with adequate guidance as to the set of Federal and State guidelines to follow in carrying out its grant obligations;
- provide guidance such that contracting and significant purchases were carried out in an open, competitive manner so as to ensure the best value for the dollars expended; and
- provide guidance such that only appropriate charges would be made to federal grants for telephone, lodging and meal expenses, and equipment ordered.

In addition, the report noted that:

- The subrecipient did not competitively bid certain purchases and a contract, and was not fully aware of regulations regarding reimbursement for travel expenses, resulting in several apparent unallowable charges.

The VDH and VAHHS-NSO generally agree with these findings and have taken, or will soon take, steps to improve their policies and procedures. For example, the Department of Health's Acting Commissioner noted that the Department will be implementing a newly revised subrecipient monitoring plan partly in response to the audit findings. VAHHS-NSO is improving its policies on procurement, travel expenses, and documentation of charges to grants.

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## Background

The Vermont Department of Health (VDH), a division of the Agency of Human Services (AHS), annually receives federal funds primarily awarded through several divisions of the Department of Health and Human Services (HHS).

For example, in State Fiscal Year 2006 (SFY 2006), the Agency of Human Services reported \$820,686,223 in federal expenditures representing over 100 programs.

One of the federal grant initiatives managed by the Department has been the National Bioterrorism Hospital Preparedness Program.

From 2002 to 2006, Congress appropriated about \$6.1 billion to support activities under the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 to strengthen state and local governments' emergency readiness capabilities. HHS has distributed these funds annually to 62 recipients, including all 50 states and 4 large municipalities, through cooperative agreements under two programs:

- Centers for Disease Control and Prevention's (CDC) Public Health Emergency Preparedness Program (formerly the Public Health Preparedness and Response for Bioterrorism Program), and:
- Health Resources and Services Administration's (HRSA) National Bioterrorism Hospital Preparedness Program.

Federal revenues to the Department of Health for the bioterrorism hospital preparedness program were, according to the Department, as follows:

SFY 2004	\$1,339,205
SFY 2005	\$1,204,969
SFY 2006	\$1,763,481
SFY 2007	\$1,415,346 (3 quarters)
<b>Total:</b>	<b>\$5,723,001</b>

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The primary purpose of this program is to enhance the ability of hospitals and health care systems in Vermont and other states to prepare for and respond to biological, chemical, and radiological terrorist attacks and other potential public health emergencies.

The national program sets up a range of benchmarks, minimum levels of readiness, and sentinel indicators designed to enhance the state's ability to plan for and respond to threats against the civilian population.

Vermont activities have focused on delivering resources to Vermont's 16 partnering hospitals and related local emergency responders, including equipment needed to boost medical surge capacity, communications and information technology.

In addition, the Department of Health has funded education and training, exercises and drills, and consultation and planning to help develop a coordinated local, state and regional emergency response capability.

Two of the Bioterrorism Preparedness Grants we reviewed were received through the Health Resources and Services Administration (HRSA) of HHS, and one from the Centers for Disease Control and Prevention (CDC) of HHS.

To help carry out the objectives of the Bioterrorism Preparedness program, the Department turned to the Vermont Association of Hospitals and Health Association (VAHHS-NSO) for assistance.

Beginning in 2002, VAHHS-NSO has received approximately \$2.3 million from VDH, through more than a dozen grants. Since 2004, \$885,926 of the amount has been related to the Hospital Bioterrorism Preparedness Program.

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## Scope & Methodology

We reviewed documentation related to the National Bioterrorism Hospital Preparedness program including the federal grant guidelines, the federal grant awards to the Department of Health, the grant agreements and amendments with VAHHS-NSO for three grants:

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<i>Grant</i>	<i>Amount</i>	<i>Date<sup>1</sup></i>	<i>Status</i>
<b>Grant No. 3962</b>	<b>\$225,365</b>	<b>Mar. 25, 2005</b>	<b>Completed</b>
<b>Grant No. 4263</b>	<b>304,200</b>	<b>May 4, 2006</b>	<b>Completed</b>
<b>Grant No. 4398</b>	<b>100,000</b>	<b>Aug. 2, 2006</b>	<b>Extended to Aug. 31, 2007</b>

**Total: \$629,565** (100 percent federal funds)

We also reviewed state and federal regulations relating to the grant and monitoring by the awarding agency.

We note that the principles and standards for determining costs of Federal awards to State and local governments (OMB Circular A-87) include the statement “that all subawards are subject to those Federal cost principles applicable to the particular organization concerned” and that if a subaward is made to a non-profit organization other than a hospital, college or university, *Cost Principles for Non-Profit Organizations* (OMB Circular A-122) shall apply.

We reviewed financial records and other documentation in the State’s accounting system, and also at the Department of Health and at the subrecipient’s office in Montpelier. We met with staff at the Department of Health and at VAHHS-NSO to better understand the grant accounting procedures and reporting and monitoring mechanisms used during the grant period. During our review of grants, VDH conducted an inventory of items purchased by VAHHS-NSO from Fisher Scientific, stored at several locations, and provided the results for our review. We did not visit equipment storage facilities to verify the indicated amounts. We also reviewed the most recent *Audit Report and Reports on Compliance and Internal Control* for VAHHS-NSO as of September 30, 2006 by its independent auditor, which discussed the organization’s compliance with laws, regulations, contracts and grant agreements.

We met with staff of VDH and VAHHS-NSO to review preliminary findings, and also provided VDH with a draft report for comment.

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<sup>1</sup>This references date the State of Vermont signed the basic grant agreement.

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## Findings and Recommendations

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### Finding 1 Grant Guidance

**Criteria:** States receiving National Bioterrorism Hospital Preparedness awards must adhere to federal grants management regulations contained in 45 CFR Part 74 or 45 CFR Part 92, and OMB Circular A-133 (audit requirements), according to the HHS grant announcement. Part 74 applies to subgrants made to non-profit organizations, and notes that the allowability of costs incurred by non-profit organizations is determined in accordance with the provisions of OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. The grant announcement also declares that states must ensure that any sub-recipients are aware of and adhere to the above policies as well.

OMB Circular A-122 notes that in determining the reasonableness of a given cost, consideration shall be given to “the restraints or requirements imposed by such factors as generally accepted sound business practices, arms length bargaining, Federal and State laws and regulations, and terms and conditions of the award.”

The Vermont Agency of Administration’s Bulletin No. 5, *Single Audit Policy for Subgrants: Compliance with OMB Circular A-133*, discusses the policies and procedures governing federal funds received by State agencies and departments that are subsequently granted to other governmental or non-federal entities, including non-profit organizations. The bulletin notes that a key responsibility for the agency passing funds through to another entity is to “advise subrecipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.”

The Vermont Department of Health *Policies on Subrecipient Monitoring*, issued July 1, 2004 and revised July 1, 2006, states, “Unless a subrecipient is already familiar with the requirements associated with grants ... the Program Manager should ensure that the subrecipient is aware of their need to comply with these requirements.”

**Condition found:** We found that VAHHS-NSO appeared to have little information about specific federal regulations pertaining to the Bioterrorism Preparedness program. In the grant agreements we reviewed, the “Scope of Work to be Performed” typically covered the detailed services to be provided under the grant, but we found no specific language addressing the need to adhere to federal financial management and procurement guidelines. However, included in each grant agreement between VDH and VAHHS-NSO

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is *Attachment C: Customary State Grant Provisions*. The second provision notes the following general requirement: “The subrecipient must comply with all the federal requirements pertaining to the expenditure of federal funds.” This requirement was accepted by the subrecipient.

In interviews, financial officers and grant staff at VAHHS-NSO indicated that they were not aware of the specific federal regulations under which the award was made, such as administrative and financial requirements of 45 CFR Part 74 or 92, and OMB Circular A-122, and expressed frustration at having little guidance from VDH regarding complex federal standards for expenditures and accounting. “We operated somewhat blindly,” one VAHHS-NSO official stated.

**Questioned cost:** Not determined.

**Cause:** The State did not reference the specific guiding regulations in its grant agreements; we saw no evidence that VDH followed up during the course of the grant with communication about applicable federal and state standards. Further, VAHHS-NSO officials expressed frustration with the turnover in grant management personnel at VDH since 2004 when it began to accept federal funds through VDH for Hospital Bioterrorism Preparedness and other projects. For the three grants under this review, five different staff at VDH are listed on grant agreements and amendments as the State’s information contact or the State’s person to send reports to.

**Effect:** Being unaware of specific federal and state guidelines and regulations about spending and accounting for grant funds increases the risk of an improper expenditure occurring.

**Recommendation:** The Department of Health should include more specific information in grant agreements about the relevant federal and state rules and regulations which apply to the award. The Department should consider offering training sessions for new subrecipients regarding state and federal requirements that must be adhered to while managing a subaward.

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## Finding 2 Grant Monitoring

**Criteria:** OMB Circular A-133 states that a pass-through entity shall “monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.” The VDH *Policies on Subrecipient Monitoring* adds that VDH will monitor all grants and that specific

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monitoring plans will be developed which may include a review of program reports, financial reports, site visits, desk reviews, and program or financial audits. In addition, the guide requires that a risk assessment be done regarding the organization, evaluating such factors as the organization's past experience with federal grants, the size of the grant, and the complexity of compliance requirements, and past monitoring results to determine a risk level, which in turn leads to a certain level of recommended monitoring.

The grant agreements we reviewed had requirements for interim and/or final reports by the subrecipient to VDH.

Further, State of Vermont Bulletin No. 5 states the pass-through entity must review the A-133 audits of applicable subrecipients. Within six months of receiving the A-133 audit report, the State entity must review any audit findings and the subrecipient's planned corrective action to determine whether the subrecipient is complying with the grant agreement requirements.

**Condition found:** We did not find a written VDH monitoring plan for the grants in question, though we reviewed minutes of committee meetings which featured both VDH and VAHHS-NSO updates, among others. We found that semi-annual or annual reports required to be submitted by the subrecipient were, indeed, submitted. However, there is no evidence that these reports were reviewed by the VDH grant contact or program manager.

We did not find evidence that VAHHS-NSO underwent a subrecipient risk analysis by VDH staff, a process which helps determine the level of monitoring that a grant might require.

The first A-133 audit of VAHHS-NSO was dated December 4, 2006. As of the date of our review, VDH has not yet performed a review of this independent audit report. Although recent financial monitoring has included review of amounts paid by VAHHS-NSO, VDH's general monitoring of the grants has not been well documented.

VDH was unable to provide documentation of grant monitoring such as a response memo after the subrecipient submitted a required report; initials on reviewed meeting minutes; approval of invoices; or other documentation of monitoring sufficient to determine that performance measures were met and financial reports were adequate.

VDH did not review purchase orders, inventory receipts, or invoices prior to closing out the grant and paying VAHHS-NSO in full.

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At the time of our review, VAHHS-NSO staff members were not fully aware of the specific inventory levels of emergency preparedness supplies purchased and received under the grants. Subsequently VDH completed an inventory of supplies on hand at five locations.

**Questioned cost:** Not determined.

**Cause:** There appear to be various reasons why VDH monitoring of these subgrants appears cursory, including staff turnover in the VDH grants management area, and the fact that VDH staff attended many meetings where VAHHS-NSO staff was present and gave updates or conducted planning meetings. This collaboration may have obviated the need for formal monitoring, according to the current grant manager. VAHHS-NSO staff stated they did not receive responses or feedback from VDH on either financial or performance reports until recently. Another concern expressed by VAHHS-NSO was that goals of a grant were sometimes changed and did not meet the intent of the original grant.

Further, the person in the VDH business office with general responsibility for A-133 reviews resigned and no replacement had been hired as of the time of our review. However, VDH indicated that reviews of A-133 audits would likely be handled in the future by a new internal audit group at AHS.

**Effect:** Limited or insufficient monitoring can increase the risk of improper grant expenditures and possible failure to achieve the primary objectives of the program in a timely, cost-effective manner.

Timely review of A-133 audit reports is required by the State in Bulletin No. 5, and can identify policy or procedure gaps in a subrecipient entity which may put federal funds at risk.

**Recommendation:** VDH should develop and utilize written monitoring plans which address the appropriate risk level of subrecipients, as recommended in VDH grant monitoring guidelines. VDH should provide general subrecipient monitoring including activities such as review of detailed invoices, measurement of performance goals, and validation of purchased inventories, as necessary. Documentation of these reviews should be retained in the grant files by VDH.

VDH should take measures to ensure the subrecipient's A-133 audit reports are reviewed within six months of receipt and that findings are corrected in a timely manner by VAHHS-NSO.

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### Finding 3 Procurement

**Criteria:** Grant guidance for the Bioterrorism Hospital Preparedness Program, found at 45 CFR Part 74.43 states, “All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade ... Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, [with] price, quality and other factors considered.”

In the so-called “Common Rule,” *Uniform Administrative Requirements for Grants and Cooperative Agreements to States, Local and Tribal Governments*, federal regulations (45 CFR Part 92) state, “A state must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds.” Further, 45 CFR Part 92.36 states, “When procuring property and services under a grant, a State will follow the same policies and procedures it uses for procurements from its non-Federal funds. ... Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section.”

For discussion purposes, we note that State procedures could include the Agency of Administration Bulletin No. 3.5, *Contracting Procedures*, which states that it is the policy of the State of Vermont to encourage competitive bidding for products and services to maximize the value of expenditures.<sup>2</sup> The bulletin requires various levels of competitive bidding and contracting procedures depending on the amount of the estimated contract maximum. The bulletin also notes that negotiating with one contractor is sometimes appropriate. In cases where the contract value is between \$10,000 and \$75,000, the supervisor must inform the Secretary of the Agency of

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<sup>2</sup>The Bulletin in effect during the grant period stated, “It is the policy of the State of Vermont to obtain high quality services and materials in a cost effective manner through the maximum use of an open and competitive contract solicitation process. Supervisors, as herein defined, are hereby delegated the management and oversight responsibilities for the procurement and contracting process for services and products and are directed to oversee these responsibilities in a manner consistent with this policy and with the provisions of this Bulletin.”

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Administration of his/her intention to execute the sole source contract and must provide justification.<sup>3</sup>

**Condition found:** VAHHS-NSO did not have written procurement policies and procedures. VAHHS-NSO entered into a \$76,000 consulting contract for personal services related to, among several subjects, “rural hospital development and bioterrorism, including the development of related policies and procedures.” This personal services contract was not publicly offered, and was awarded to a person who had previously worked for VAHHS. The contract period ran from September 1, 2005 until August 31, 2006, but the contract was not signed by the parties until August 11, 2006. There was no documentation evident concerning the decision by VAHHS-NSO to forego the open, competitive solicitation the federal requirements suggest.

VAHHS-NSO paid \$43,435 to Ham Radio Outlet of Salem, New Hampshire, on July 28, 2005 for 29 RACES<sup>4</sup> radio setups, anchored by the ICOM IC-706MKIIG transceiver base unit, at \$879.95 each. An additional radio setup at \$1,498 was purchased on August 11, 2005. According to the grant agreement, these radios were to be delivered to Vermont hospitals, VAHHS-NSO and district offices of the Department of Health. They are intended to provide redundant, non-electronic back-up communications systems in the event of a mass casualty event. We found no written documentation about competitive bidding, solicitations for prices, or a cost analysis for this purchase, or explanation as to why a “sole source” vendor was chosen. Upon inquiry, VAHHS-NSO staff said the purchase was recommended by a consultant who verbally discussed prices with a firm in California and the Ham Radio Outlet in New Hampshire.

VAHHS-NSO paid \$67,592 to Burlington Drug Co. of Milton on January 18, 2006 for pharmaceutical cache drugs to provide prophylaxis for hospital personnel, volunteers and emergency first responders and their families for three days in the event of an outbreak of an infectious disease. The grant called for VAHHS-NSO to make the purchase in consultation with VDH and the Medical Director of the New England Metropolitan Medical Response Systems. We found no record of bidding or cost comparisons in the expenditure records of VAHHS-NSO. Upon inquiry, VAHHS-NSO staff said that the items for purchase were selected by individuals from VDH. VDH

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<sup>3</sup>In the new Bulletin No. 3.5, revised after these grants commenced, the contract value amount cited is \$15,000 to \$100,000.

<sup>4</sup>Radio Amateur Civil Emergency Service.

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was unable to provide documentation showing that any price comparisons or bidding occurred.

VAHHS-NSO has paid \$191,036 for personal protective equipment (PPE) from Fisher Scientific International of Hampton, New Hampshire without competitive bidding procedures. (Fisher has invoiced VAHHS-NSO a total of \$202,489 to date.)

According to the grant, a work group of individuals from Vermont hospitals, Vermont Emergency Management (VEM), and VDH would define the level of PPE needed for the state hospital stockpile. Then, VAHHS-NSO would work with VDH and VEM to purchase and stockpile PPE, including gowns, gloves, masks and goggles for hospital staff. The planning efforts were not well documented and there were no purchase recommendations included with invoice records. According to VAHHS-NSO staff, the items were selected by individuals from VDH, including the VDH EMS office.

**Additional Observations on Fisher Scientific:** Procurement practices at VAHHS-NSO were insufficient to manage the purchase of large quantities of PPE anticipated by the grant. Packing lists were not always compared to items received, nor were they compared to items ordered. According to staff, invoices were paid without verification that the items were received. As a result, there was confusion about which ordered items were purchased and delivered; which were purchased and not delivered; which were back ordered; and which were not purchased but delivered in error.

On April 18, 2007, VDH provided a summary of the PPE inventory developed from Fisher Scientific invoices. VDH subsequently performed onsite inventories of PPE received at each of the storage sites, comparing invoiced vs. received products, and noting any variances in prices or products.

After considerable review and discussion, VAHHS-NSO determined that the most significant variance related to 114 cases of fluid shield masks that VAHHS-NSO paid for, but did not receive. Before the inventory effort, the subrecipient did not realize that inventory was misstated.

**Questioned cost:** \$13,780 paid for 114 cases of fluid shield masks that were not delivered. Questioned costs for services and products that were not competitively bid are undetermined.

VDH and VAHHS-NSO have agreed that the PPE products are important for the protection of health care workers in the event of an emergency. Therefore, VAHHS-NSO reports that Fisher Scientific will issue a credit to

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VAHHS-NSO in the dollar amount of the missing inventory and VAHHS-NSO will in turn purchase the missing inventory for the value of the credit.

**Cause:** The subrecipient organization lacked clear guidance regarding required procurement policies. The organization did not have written procurement policies, and appears not to have been aware of federal regulations attached to the grant requiring competitive bidding to the maximum extent practical. The subrecipient lacked proper procedures for verifying that product shipments were correct and complete before paying invoices.

**Effect:** Lack of competitive bidding increases the risk that purchases may cost more than necessary, reducing the amount of funds available for other grant purposes. Lack of oversight on key purchases increases the risk that grant objectives may not be achieved in the most cost-effective manner possible.

**Recommendation:** VDH should provide guidance to VAHHS-NSO to ensure that the subrecipient has procurement policies and procedures that maximize the value of open competition. Procurement procedures should include adequate internal controls to verify that received goods are those ordered, at the correct prices.

VDH should also require VAHHS-NSO to work with Fisher Scientific to ensure that federal grant funds have been used to acquire only necessary products at agreed-upon prices and in correct quantities, and to credit the grant for all excess charges.

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#### Finding 4 Prudent Lodging & Meal Expenses

**Criteria:** According to OMB Circular A-122 *Cost Principles for Non-Profit Organizations* (2 CFR Part 230, Appendix A), “a cost is reasonable if, in its nature or amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the costs.” In addition, costs must be adequately documented.

OMB Circular A-122 notes that in the absence of a written travel reimbursement policy at the non-profit receiving federal funds, the rates and allowances established by the General Services Administration (GSA) shall apply to travel under Federal awards. (VAHHS-NSO did provide a written travel policy but it does not currently include any cost or *per diem*

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restrictions, and thus is not an adequate control for assuring reasonable expenditures.) As an example of GSA rates, for the period of May 1 to September 30, 2006, the GSA set a maximum per diem rate of \$141 for lodging, meals and incidental expenses incurred in Chittenden or Franklin counties.

Further, according to OMB Circular A-122 *Cost Principles for Non-Profit Organizations* (2 CFR Part 230, Appendix B) costs of alcoholic beverages are unallowable costs in subgrants to non-profit organizations.

In addition, the Common Rule, at 45 CFR Part 92.20, states, “Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to . . . (2) permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.”

**Condition found:** VDH and VAHHS-NSO documentation indicates that federal grant funds were used to pay \$1,189 in lodging costs for three nights at the Palace Royal in Quebec City in May 2006, or approximately \$396 per night (including daily parking and internet fees but not including meals), for two meeting attendees. Information from the hotel indicates that other rooms, at about half the cost, are normally available. The expenditure appears to be at an imprudent level and was not detected by the subrecipient organization.

VAHHS-NSO expense receipts for meals charged to grants often did not indicate if alcoholic beverages were included in the bill, how many people dined, or the grant-related purpose for the expense.

For example, in July, 2006 VAHHS-NSO charged \$300 to a grant for a June 28, 2006 meal for four individuals at a Boston restaurant and paid by credit card. This meal expense was related to attendance at the New England Pandemic Influenza & Avian Influenza Regional Meeting sponsored by the Region I Office of the Department of Health and Human Services, June 29-30, 2006. No breakdown of each individual’s meal expense was provided; nor was there sufficient documentation to indicate no alcoholic beverages were included in the fare. Upon request by the State Auditor’s Office, the Aquitaine restaurant provided an itemized receipt for the meal in question which indicated that the bill included \$76 in alcoholic beverages.

Federal expense guidelines published by the GSA limit meal and incidental expense for June 2006 in the Boston area to \$48 on the first day of a trip. A VAHHS-NSO staff person charged the grant \$32 for lunch (two persons) earlier in the day, or \$16 each. Thus, \$16 for lunch and \$75 for dinner

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(\$300/4 diners) totaled \$91 in meal expenses for the day for the VAHHS-NSO staff person, \$43 above the \$48 federal maximum in effect at the time.

An October 3, 2006 credit card payment to the Teatro Restaurant in Boston of \$255 was charged by VAHHS-NSO to the Bioterrorism Preparedness grant award. This expense was related to a federal HHS/CDC meeting, *Crisis & Emergency Risk Communication: Pandemic Influenza*. The back of the receipt indicated four people dined, but there was no documentation of individual costs or that no alcohol was served. The cost, on average, was \$63.75 per person. Under GSA guidelines, this amount is below the \$64 per diem maximum (not first day of trip) allowed for meals and incidental expenses in the Boston area. An itemized receipt was requested from the restaurant but had not been delivered as of the date of this report.

In one case, however, alcohol was noted on a receipt and paid. VAHHS-NSO reimbursed a consultant \$627.96 on October 6, 2005 for expenses related to attendance at Yale-New Haven International Congress on Disaster Medicine and Emergency Management, held September 12-13, 2005 at the Omni Hotel New Haven at Yale. This amount was charged to Grant No. 3962. The reimbursement included \$6.57 for a Stella (beer) beverage, tax and tip, at Mory's, 306 York Street, New Haven, Connecticut.

**Questioned costs:** Up to \$594 for lodging costs (approximately 50 percent of \$1,189) because more reasonably priced accommodations were likely available for the travel discussed above. Excess meal and ineligible alcohol costs are cited above. VAHHS-NSO indicated to auditors that meal reimbursements for travel without proper documentation are being repaid to the appropriate grant in full.

**Cause:** The subrecipient organization should have known, but was not fully aware of regulations regarding reimbursement for travel expenses. The subrecipient's travel policy did not have maximum reimbursement levels. Further, VDH did not review detailed expenditure information regarding the grants under review.

**Effect:** Lack of clear guidance regarding the allowability of travel costs increases the risk of improper cost allocations to the federal grant.

**Recommendation:** VDH should ensure that subrecipients are aware of relevant laws, rules and regulations regarding travel costs and reimbursement limits which help ensure prudent expenditures.

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As circumstances require, VDH grant agreements should include specific federal or state guidance regarding the allowability and limits to travel, meals and other expenses, as determined by VDH.

VDH should request that VAHHS-NSO review other meal and lodging charges paid by federal grants and credit the grant for excess or unallowable charges as necessary.

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## Finding 5 Telephone Charges

**Criteria:** According to OMB Circular A-122 *Cost Principles for Non-Profit Organizations* (2 CFR Part 230, Appendix A, *General Principles*), to be allowable under an award, costs must be reasonable for the performance of the award, be allocable to the award, and must be adequately documented. Further, 45 CFR Part 74.21 requires a subrecipient's financial management system to include written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the applicable Federal cost principles and the terms and conditions of the award.

**Condition found:** In reviewing expenses charged to Grant No. 3962, we noted seven payments by VAHHS-NSO to NEXTEL for monthly cell and enhanced services for 16 phones – nine for various hospitals, four for the VAHHS-NSO, two for a specific VAHHS-NSO staff person who served as Director of Emergency Preparedness for VAHHS-NSO, and one for a VDH grant administrator. VAHHS-NSO staff informed us that the charges for the second phone for this staff person had been routinely paid in error, totaling \$619.03 over the seven months we reviewed, and that NEXTEL was in the process of providing a credit to VAHHS-NSO for past payments on this second phone.

We also noted that a VDH administrator had given his approval for VAHHS-NSO to charge the grant for data services for its staff person's NEXTEL Blackberry device, then priced at \$36.90 per month, but increased to \$44.99. According to this agreement, VAHHS-NSO was to pay for the voice portion of the telephone bill, while the grant could be charged for the data services charges. However, we noted that VAHHS-NSO charged all phone services of this staff person to the grant. VAHHS-NSO did not appear to have a clear understanding about which NEXTEL costs would be charged to the grant and which would be paid by VAHHS-NSO.

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We also noted that the VDH administrator appears not to have copied the relevant e-mail approval message to the actual grant manager, informing the manager about this allocation of grant funds.

We did not find evidence of VDH approval for subsequent grants to pay NEXTEL monthly bills, but VAHHS-NSO did continue to charge NEXTEL bills to Grant No. 4263, for example. (We noted eight payments to NEXTEL, totaling \$5,810, were charged against Grant No. 4263.)

Upon inquiry, VAHHS-NSO staff noted that although subsequent grant documents did not formally include NEXTEL, it was the intent of VDH and VAHHS-NSO to continue the redundant communication through subsequent grants so as to keep available an important communication tool.

**Questioned costs:** \$619 related to the second phone; \$718 for voice charges of the staff person's phone inappropriately charged to the grant. Total: \$1,337. On May 29, VAHHS-NSO staff indicated that Nextel would be crediting the organization for the amount of \$619.03 for the second phone that was incorrectly charged and paid. The \$718 in voice charges has been repaid to the grant, according to VAHHS-NSO.

**Cause:** There appears to have been imprecise communication between VAHHS-NSO and VDH regarding which NEXTEL phone costs could be charged to which federal grant. It also appears that VDH did not review VAHHS-NSO financial and expense reports in detail.

**Effect:** Lack of accurate, timely guidance on cost principles and apparent cursory scrutiny of expenditures increases the risk of improper expenditures.

**Recommendation:** VDH should assure that VAHHS-NSO has properly credited to the relevant federal grant any unallocable NEXTEL telephone charges and has appropriate internal controls in place to assure that this situation does not occur again.

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## Conclusion

The Vermont Department of Health appears not to have provided its subrecipient with adequate guidance and monitoring for the grants selected, resulting in likely excessive costs in several areas. VAHHS-NSO indicated it was not aware of the need to follow specific regulations regarding competitive bidding and travel expenditures, though it signed grant agreements saying it would comply with all the federal requirements pertaining to the expenditure of federal funds. VDH also appears to have

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provided inadequate grant monitoring and insufficient financial review of expenditures and contracts.

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## Agency Comments and Our Evaluation

In commenting on a draft of this report, the Acting Commissioner of the Vermont Department of Health reaffirmed the Department's commitment to monitor a subrecipient's compliance with federal regulations in the use of federal funds passed through the Department. (Appendix I contains a reprint of the Acting Commissioner's comments.)

The Acting Commissioner also said that a newly revised subrecipient monitoring plan of the Agency of Human Services would be employed by the Department to address the four key components of OMB Circular A-133:

1. to provide the subrecipient with the information it needs in order to comply with federal requirements;
2. to assess the risk that the subrecipient will fail to comply;
3. to monitor subrecipient compliance with the requirements based on the assessed risk; and
4. to ensure subrecipient compliance with the independent audit requirement.

A key step in the process of developing a grant award will be the identification of the regulatory requirements that apply to a grant and properly informing the subrecipient, in part by referencing them in the grant agreement. The Acting Commissioner further noted that the AHS Internal Audit Group (IAG) will work with AHS staff to keep them apprised of the regulatory requirements related to grants of federal funds and will assess their performance of subrecipient monitoring.

The Acting Commissioner noted that the findings in the draft report were examples of the Department's inadequate performance, noting that the Department is requiring the subrecipient to ensure that missing equipment from Fisher Scientific is supplied, and that the subrecipient has credited the grant for \$1,393 for incorrect telephone charges, and has improved its policies to require more specific documentation of travel and related expenditures.

VAHHS-NSO also responded to the draft report, outlining some of the changes being implemented to improve financial accountability. That correspondence is available in its entirety in Appendix II.

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In accordance with 32 V.S.A. §163, we are also providing copies of this report to the Secretary of the Agency of Administration, the Commissioner of the Department of Finance and Management, and the Department of Libraries. In addition, the report will be made available at no charge on the State Auditor's web site, [www.auditor.vermont.gov](http://www.auditor.vermont.gov).

Any questions or comments about this report can be directed to the State Auditor's Office at 802-828-2281 or via e-mail at [auditor@state.vt.us](mailto:auditor@state.vt.us). George Thabault was the primary auditor, with the assistance of Denise Sullivan, CPA, Assistant State Auditor.

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# Appendix I: Response by the Vermont Department of Health

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**Department of Health**  
Office of the Commissioner  
108 Cherry Street - PO Box 70  
Burlington, VT 05402-0070  
[healthvermont.gov](http://healthvermont.gov)

[phone] 802-863-7280  
[fax] 802-951-1275  
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*Agency of Human Services*

August 22, 2007

Thomas M. Salmon, CPA  
Vermont State Auditor  
132 State Street  
Montpelier, VT 05633-5101

RE: Response to Audit Findings in State Auditor Report 07-10

Dear Mr. Salmon:

The State Auditor's Report 07-10 is an audit of two different organizations with shared responsibility for three federal grant awards. The audit identified five findings. The first two findings relate to the Vermont Department of Health's (VDH) performance in accomplishing the federal grant objectives by making sub-awards and thereby becoming a state pass-through entity responsible for subrecipient monitoring. VDH's response is therefore restricted to the findings related to its role. It is our understanding that VAHHS-NSO has responded to the findings related to its compliance with federal regulations.

When a state agency is a pass-through entity of federal funds to a subrecipient, it is required to monitor the subrecipient's compliance with federal regulations in the use of the funds. The findings in the report are examples of the Department's weak performance with respect to subrecipient award monitoring. The Department's responses to the findings describe the ways in which the newly revised subrecipient monitoring plan of the Agency of Human Services will address these findings.

The monitoring required by A-133 has four components:

1. To provide the subrecipient with the information it needs to comply with federal requirements,
2. To assess the risk that the subrecipient will fail to comply,
3. To monitor subrecipient compliance with the requirements based on the assessed risk; and,
4. To ensure subrecipient compliance with the independent audit requirement

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# Appendix I: Response by the Vermont Department of Health

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## Finding #1 – Failure to inform VAHHS-NSO adequately of federal regulatory requirements

The regulatory requirements that apply to a grant and to a grantee shall be identified as part of the process of developing a grant award. It is the responsibility of the Department staff drafting the grant to determine the pertinent regulations, to reference them in the grant, and to determine what actions must be implemented so that both the Department staff responsible for managing the grant and the grantee staff responsible for administering the grant can minimize the risk of failures in complying with the regulations.

The AHS subrecipient plan provides for identifying the applicable regulations and properly informing the subrecipient. It includes specific risk assessment procedures to identify potential non-compliance and provides both avoidance actions and monitoring to detect non-compliance.

## Finding #2 – Failure to perform subrecipient monitoring required by OMB Circular A - 133

The AHS subrecipient plan provides for an assessment of the risk that a subrecipient will fail to comply with the applicable federal regulations. The tools to perform this assessment are developed and maintained by the AHS Internal Audit Group (IAG). The IAG also has responsibility for providing technical assistance to department staff in complying with A-133. The assessment tools are constructed so that the results of the assessment are transformed into a compliance checklist. The checklist is used to record the performance of preventive measures to minimize the risk of non-compliance and for monitoring the subrecipient to identify and correct non-compliance. One of the problems for any pass-through entity is the requirement to document the performance of its required functions. The checklist meets that requirement.

The requirement to review subrecipient independent audits is being met under the AHS subrecipient monitoring plan. The audit of VAHHS-NSO is dated December 4, 2006 because that is the last day of significant field work by the auditor. The report was filed with the federal single audit clearinghouse on April 9, 2007. OMB Circular A-133 provides six months after receipt for the Health Department to review the audit and to issue a Management Decision Letter (MDL) if there are findings. The MDL was drafted in early July and has been sent.

## Finding #4 – Unallowable and unreasonable travel & related expenditures

The AHS subrecipient monitoring plan provides for assessment of the risk that AHS personnel as well as subrecipient personnel will not be aware of the pertinent regulations. It also provides that the AHS Internal Audit Group (IAG) will continue to work with AHS staff to keep them apprised of the regulatory requirements and to assess their performance of subrecipient monitoring. The IAG has the responsibility for working with AHS personnel to ensure that AHS complies with the pertinent federal and state

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# Appendix I: Response by the Vermont Department of Health

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regulations. The Secretary's Office has renewed its emphasis and focus on the importance of implementing internal audit procedures and controls as well as conducting internal audits throughout the agency. As a result the AHS Internal Audit Group was created in 2006.

The risk assessment process of the revised AHS subrecipient monitoring plan specifically asks whether the subrecipient will be able to comply with the regulatory requirements. If the answer is "no", a remedial measure must be taken. The plan also requires that preventive action be taken. AHS will develop more explicit standards and procedures for subrecipients to use when the subrecipient's procedures for accounting for travel and related expenditures are judged to be likely to result in noncompliance with federal regulations.

2 CFR Part 230, Cost Principles for Non-Profit Organizations (OMB Circular A-122), governs travel expenditures for non-profit organizations unless the State decides to make additional requirements under 45 CFR 74.1(b), which it has not done. Under A-122 : *Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, shall be considered reasonable and allowable only to the extent such costs do not exceed charges normally allowed by the non-profit organization in its regular operations as the result of the non-profit organization's written travel policy.* Since VAHHS-NSO has a written travel policy, it governed the travel and related expenses under these grants.

With the first grant, it was noted that VAHHS personnel were charging alcoholic beverages to the grant, which is not allowed. This practice ceased once they were notified of the error. VAHHS-NSO has provided an accounting of travel expenditures charged to the grants. While the detail supporting the expenditures met the standard established by the VAHHS-NSO policy, it was not sufficiently detailed to determine if costs not allowed were incurred, specifically expenditures for alcohol. The VAHHS-NSO practice has been changed to require more specific documentation of travel and related expenditures.

Please let me know if we can be of any further assistance to you.

Sincerely,



Sharon Moffatt, RN, MSN  
Acting Commissioner

cc: Cynthia LaWare, Secretary, Agency of Human Services

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# Appendix II: Response by the Vermont Association of Hospitals and Health Systems – Network Service Organization

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VERMONT ASSOCIATION OF  
HOSPITALS AND HEALTH SYSTEMS – NETWORK SERVICE ORGANIZATION

July 27, 2007

Mr. Thomas Salmon, CPA  
Office of the Vermont State Auditor  
132 State Street  
Montpelier, VT 05633-5101

Dear Mr. Salmon:

This letter is in response to the recent audit of the Vermont Department of Health (VDH) specific to the Bioterrorism and Pandemic Flu grants. The Vermont Association of Hospitals and Health Systems – Network Service Organization (VAHHS- NSO) has reviewed the audit report and is taking immediate corrective action to eliminate current weaknesses in our policies and procedures. I would also like to thank you for recognizing the work that VAHHS – NSO has done in helping the State address federal requirements to increasing Vermont’s capacity to respond to a range of public health care threats.

The following outlines our activities and corrective action plans related to Findings 3, 4, and 5.

**Finding # 3- Procurement**

**HAM Radios:** The finding outlined that there was no evidence of a competitive bidding process for the RACES radios. The process of purchasing was managed by Park Side Consulting who discussed options with Vermont Emergency Management. (VEM). VEM referred Park Side Consulting to Ham Radio Outlet in Salem, NH and another firm in CA. Due to location, service, and discussions with VEM, Park Side Consulting determined the optimal place to purchase the radios was from Ham Radio Outlet of Salem, NH.

**Corrective Action:**

If VAHHS-NSO is required to procure items supported by federal grant dollars the organization will follow the procurement procedures outlined in the Office of Management and Budget (OMB) Circular A-110.

**Pharmaceutical purchase from Burlington Drug Co.:**

VDH directed VAHHS – NSO to purchase the pharmaceutical cache because VDH could not find a vendor that would sell the pharmaceuticals at preferred price points and deliver the drugs to the appropriate hospitals. It is the understanding of VAHHS – NSO that VDH in conjunction with Dr. Robert Gougelet from the New England Center for Emergency Preparedness (NECEP), determined the type and amount of pharmaceuticals to be purchased.

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# Appendix II: Response by the Vermont Association of Hospitals and Health Systems – Network Service Organization

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Mr. Thomas Salmon  
July 26, 2007  
Page 2

**Corrective Action:**

If VAHHS-NSO is required to procure items supported by federal grant dollars the organization will follow the procurement procedures outlined in OMB A-110.

**Fisher Scientific:** The VDH Bioterrorism Hospital Preparedness Program Advisory Group (VDH BHPP) created a VDH workgroup to make specific recommendations regarding the proper Personal Protective Equipment (PPE) for first responders for various hazards including: EMS, fire-service, law enforcement and health care personnel. The workgroup met a number of times, but did not address the use of PPE for health care personnel. The Advisory Group then recommended that VAHHS-NSO develop a health care PPE workgroup to develop the statewide health care personnel PPE strategy.

VAHHS-NSO convened the PPE workgroup and asked for representatives from the VDH workgroup to help standardize the statewide purchase as much as possible. The PPE workgroup included representatives from Vermont's Occupational Safety and Health Administration, VDH (commissioner's office and EMS) and hospitals. State HAZMAT was invited, but did not attend. A subset of the PPE workgroup investigated the products to purchase by contacting other agencies and health care entities. State agencies and hospitals highly recommended Fisher as the vendor for the following reasons: 1) Fisher had established relationships with hospitals and state agencies, 2) Fisher had a reputation as a leader in health care supplies, and 3) Fisher was highly competitive on pricing. As an interim step, the Director of Emergency Preparedness at VDH negotiated with Fisher Scientific for best pricing. After being given final pricing by the Fisher Scientific representative, the director called 3M, the maker of the N95 masks ordered (the largest single part of the order) to determine if Fisher Scientific was offering best pricing. Based on this communication, it was determined that the best possible price could be obtained through Fisher Scientific.

**Corrective Action:**

If VAHHS-NSO is required to procure items supported by federal grant dollars the organization will follow the procurement procedures outlined in the OMB A-110.

**Finding # 4- Prudent Lodging and Meals**

The conditions outlined within Finding # 4 pertain to the Cost Principles for Non-Profit organizations (OMB A-122). The Finding specifically identifies instances where prudent behavior may not have been exercised while traveling.

**Corrective Action:**

VAHHS-NSO, as it relates to federal grant activity will follow the cost principles outlined in OMB A-122. In the future, VAHHS – NSO will also require that expenditure criteria related to travel and meals are properly outlined within the grant documentation.

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# Appendix II: Response by the Vermont Association of Hospitals and Health Systems – Network Service Organization

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Mr. Thomas Salmon  
July 26, 2007  
Page 3

**Finding # 5- Telephone Charges**

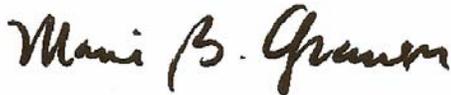
The conditions outlined within Finding # 5 pertain to the purchase and use by VAHHS – NSO of NEXTEL telephone services. VAHHS-NSO purchased Nextel phones for Vermont hospitals with Nextel service as a redundant communication tool.

**Corrective Action:**

VAHHS-NSO, as it relates to federal grant activity will implement and follow the cost principles outlined in OMB A-122. VAHHS – NSO has corrected all billing to appropriately reflect the names of the hospital utilizing the phones. VAHHS - NSO will be receiving a credit for the overcharges and has reimbursed the grant for the portion of voice services.

In closing, I would like to thank you and your staff for the time and effort they have spent on this audit. Our staff has found the experience to be extremely beneficial and I would like to reiterate how important it is for our organization to support the well being of Vermonters and the health care delivery system through the collaborative efforts made possible through these federal grants.

Sincerely,



M. Beatrice Grause RN, JD  
President and CEO, Vermont Association of Hospitals and Health Systems