



Vermont State Auditor

December 28, 2012

FY 2010-2012 Strategic Plan
and
FY 2012 Performance Report

Thomas M. Salmon, CPA, CFE
Vermont State Auditor

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STATE AUDITOR



STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

December 28, 2012

As we reach the end of this strategic plan reporting cycle, the SAO can be proud of its many accomplishments. Most notably, the SAO has

- Transitioned to conducting performance audits in accordance with generally accepted government auditing standards, resulting in recommendations that are being implemented by the auditees,
- Passed a peer review of our performance audit quality control process,
- Ensured the timely completion of financial statement audits and single audits notwithstanding the challenges posed by the American Recovery and Reinvestment Act and Tropical Storm Irene, and
- Improved communication with state entities, sheriffs, and municipalities through presentations, training, and responses to inquiries.

These accomplishments are largely due to the dedication of our staff to achieving our goals and the cooperation of the legislature and the Administration.

This strategic plan and performance report summarizes how we measure our performance and demonstrates my commitment to transparency and good management practices. Our website (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, CFE".

Thomas M. Salmon, CPA, CFE
Vermont State Auditor

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Abbreviations

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

Overview

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 (FY) 2014 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 the performance measurement cycle 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 2012. 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

(updates are underlined)

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Mission Statement

The mission of the Auditor's Office is to be a catalyst for good government by promoting professional audits, financial training, efficiency and economy in government, and service to cities and towns.

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.

Office Profile

Statutory Responsibilities

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

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- the annual audit of the state's financial statements, commonly known as the Comprehensive Annual Financial Report (CAFR);
- the annual federal Single Audit;¹
- 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.

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 2012, the SAO employed 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 six 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.

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

¹The 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 review² 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.

²Peer 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 KPMG³ 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.

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 29 programs or almost double the number of programs typically audited.⁴ 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 has an ongoing effect on our activities. In particular, 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. In addition, the significant damage sustained by the state's Waterbury Complex resulted in the operational disruption of major state organizations (e.g., Agency of Human Services and Agency of Natural Resources).

³We 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.

⁴The number of programs audited generally ranges from 15 to 18.

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displacement of staff, and the potential loss of documentation stored at the site. 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.

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.

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

Purpose

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

Targets

FY 2010 50%
FY 2011 50%
FY 2012 50%

Strategy

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

Challenges and external dependencies

Expected increased audit responsibilities under ARRA could require the SAO to significantly increase the number of staff hours devoted to the KPMG

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work in FY 2010 and FY 2011 in order to limit the increased cost of this contract to meet the requirements.

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 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.

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

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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.

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

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facilitate greater understanding of complex government programs and operations as well as to communicate best practices.

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 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

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

Purpose

For the past four years, the SAO has sponsored a financial management training conference for financial management and auditing professionals in state, county, and local governments and the private sector. These conferences have disseminated important information to a wide audience. In addition, having a conference in which all types of professionals participate

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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 level⁵

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

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

⁵High 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.

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.⁶

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.

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

⁶The 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.

Measure 3c: Number of Single Audit re-audits (except Medicaid)⁷

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.

⁷We 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 2012 Performance Report

FY 2012 Performance Report

Executive Summary

We measure our performance both quantitatively and qualitatively every fiscal year. 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 2012 we met or exceeded expectations for almost all measures. Most notably, our major initiative to refocus our office on performance audits has been successfully completed and we passed our initial peer review⁸ for this type of audit. At the same time the mandated financial audit and single audit reports have been issued on time.

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 performance audit reports we issued in FY 2012 were generally focused on tax increment financing (TIF) districts⁹ and Medicaid. Our TIF work at Milton and Burlington uncovered significant non-compliance with state statutes in the administration of the Tax Increment Financing Districts and we concluded that these municipalities inappropriately withheld several million dollars in property taxes from the state education fund. We also reported on deficiencies related to a wide variety of issues associated with the State's Medicaid program, including controls over Medicaid providers.

We also looked back to recommendations issued in CY 2008 and CY 2010 reports and found that organizations had implemented or partially implemented 85 percent and 74 percent of our recommendations, respectively. This is a strong indicator of the value, quality, and persuasiveness of our performance audits in that action was taken by the auditee to operate more efficiently or effectively or to strengthen controls. Moreover, in response to one of our recommendations, the state reached a settlement agreement with a contractor worth about \$392,000.

⁸The peer review of our internal quality control system for performance audits was conducted by auditors in other states through the External Peer Review Program administered by the National Association of State Auditors, Comptrollers and Treasurers.

⁹TIFs allow a municipality to designate an area for improvement and earmark future growth in property tax revenues in the designated area to pay for debt incurred to finance the cost of improvements. In Vermont, municipalities with TIF districts retain monies that otherwise would have been remitted to the state for funding public education throughout the state.

FY 2012 Performance Report

FY 2012 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 2012 expenditures,¹⁰ are covered by one or more of 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 2012 Performance Results

Measure	FY 2010 Actual	FY 2011 Actual	FY 2012		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	48%	64%	63%	50%	Target exceeded.
Measure 1b: Number of performance audit reports issued	6	4	6	6	Target met.
Measure 1c: Percentage of performance audit reports with recommendations to achieve cost savings and improve operational effectiveness and efficiency	83%	100%	83%	80%	Target exceeded.
Measure 1d: Percentage of audit recommendations to state entities implemented within two years and four years ^a	84% - CY 2008 reports 67% - CY 2006 reports	46% - CY 2009 reports 69% - CY 2007 reports	74% - CY 2010 reports 85% - CY 2008 reports	50% - CY 2010 reports 75% - CY 2008 reports	Targets exceeded.

¹⁰Our fiscal year 2012 expenditures were about \$3.3 million, of which about \$3.1 million pertained to staff salaries and benefits and contractors used to perform audits and other types of reviews.

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Measure	FY 2010 Actual	FY 2011 Actual	FY 2012		Analysis/Commentary
			Actual	Target	
Goal 2: Foster Improved Communication and Management Across All Levels of Government					
Measure 2a: Number of responses to legislative, government, and citizen inquiries	76	70	60	70	Target not met. We will monitor this measure in the upcoming year. Since we made or exceeded our target in the prior two fiscal years, no additional action is deemed warranted at this time.
Measure 2b: Number of SAO presentations to governmental institutions or to members of professional organizations	18	18	31	16	Target exceeded.
Measure 2c: Number of attendees at SAO-sponsored training and workshops	132	243	225	200	Target exceeded.
Measure 2d: Percentage of attendees at training provided by the SAO that indicated a high satisfaction level ^b	87%	75%	89%	85%	Target exceeded.
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 ^c	100%	100%	100%	100%	Target met.
Measure 3b: Number of repeat Single Audit findings ^c	10	13 ^d	Unk ^e	6	FY 2012 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) ^c	18	7 ^d	Unk ^e	4	FY 2012 actual results are not available because the Single Audit had not been completed at the time of this report.

^aThese figures represent recommendations in which at least partial implementation was achieved.

^bActual results reflect the views of those attendees that completed evaluation forms.

^cMeasure 3a relates to the audit reports that were issued in FY 2012 (reflecting FY 2011 results) while measures 3b and 3c refer to the Single Audit's FY 2012 results.

^dThese numbers were revised from those contained in the FY 2011 performance report, which were based on estimates. These figures are the actual results.

^eThese numbers were not available as of the date of this report.

FY 2012 Performance Report

Qualitative Accomplishments

Our performance numbers only tell part of the story of our office's accomplishments in fiscal year 2012. 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, including fraud and embezzlement awareness and prevention presentations, training, and reports.

Implemented Recommendations

The SAO makes recommendations designed to improve the operations of those entities we audit. For our work to produce benefits, auditees or the General Assembly must implement these recommendations. Our 2012 follow-up on recommendations made in CY 2008 and CY 2010 found many recommendations have been implemented and that benefits have begun to accrue.

Our recommendation follow-up work on two audits in particular illustrates the value of our work.

- 2008 report on the Agency of Transportation's rail program. Of the 22 recommendations in this report, 19 were implemented and 2 were partially implemented. Examples of corrective action taken in response to our recommendations included (1) reaching a settlement agreement worth about \$392,000 with Vermont Railway, Inc. to address questioned costs contained in our report, (2) improved contracting processes, and (3) new policies and procedures for documenting and tracking revenues and expenses associated with the rail contract.
- 2010 report on the Southwest Vermont Supervisory Union. Of the 70 recommendations in this report, the Supervisory Union implemented and partially implemented 26 and 25 recommendations, respectively. For example, the supervisory union (1) developed goals, (2) provided professional development and technical assistance to staff, (3) was in 100 percent compliance with post-secondary education plans, (4) upgraded or replaced its technology, (5) provided assistance to school districts on various issues, (6) began to track and implement a Medicaid eligibility and claims system, and (7) upgraded its website.

FY 2012 Performance Report

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):

- **Tax Increment Financing Districts.** We issued two 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. These two reports—pertaining to Milton and Burlington—found significant deficiencies in how the TIFs were administered, particularly as it related to the amount of incremental education tax revenues that should have been remitted to the State. In the case of Milton, we found that the town retained \$3.4 million that should have been remitted to the State. In the case of Burlington, the amount incorrectly retained was \$1 million. We made numerous recommendations to address these and other deficiencies.
- **Medicaid.** We issued three performance reports related to Medicaid looking at (1) provider enrollment and claims controls, (2) whether providers owed delinquent state taxes, and (3) performance measurement in the state’s long-term care program (Choices for Care). First, our provider enrollment audit found control weaknesses related to provider agreements, credentials and other requirements for enrollment, the use of excluded parties lists, post-enrollment checks, and mechanisms to ensure the accuracy of system records. Second, we found that the State has limited assurance that Medicaid funds were not paid to providers that were delinquent in paying their Vermont taxes. In addition, there were 68 providers that owed about \$360,000 in taxes that were delinquent for 60 days or more. Third, while outcomes, evaluation questions, and performance indicators had been adopted for the Choices for Care program, actual results were only partially reported.
- **The FY 2011 financial statement audit and Single Audit** were completed on time in December 2011 and March 2012, 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.

FY 2012 Performance Report

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,

- The State Auditor made fraud and embezzlement awareness and prevention a focus for fiscal year 2012. Auditor Salmon and SAO staff members gave 15 presentations on this issue during the year before legislative committees, state colleges, and private sector organizations. In addition, in February 2012, the SAO issued a situation report listing all thefts, wire transfer frauds, or embezzlements at 63 supervisory unions and school districts since 2000.
- The SAO continues to provide assistance to municipalities and to provide answers to citizen inquiries. Some of these requests are handled quickly and informally while others take more significant resources and result in the issuance of situation reports. Situation reports are a tool used to foster forward progress by informing citizens and management of issues that may need attention. They are not audits and are not conducted under generally accepted government auditing standards. The SAO issued 11 situation reports in fiscal year 2012. An example of a situation report is the June 2012 report on the Department of Correction's offender transitional housing and supporting services program, which was performed as a result of a citizen inquiry. This report provides Correction's responses to six questions related to the application of criteria, best practices, funding, contracting, and monitoring related to the transitional housing program.

Appendix I

List of FY 2012 Products

Single Audit and CAFR-Related Products

Comprehensive Annual Financial Report for the fiscal year ending June 30, 2011, http://auditor.vermont.gov/sites/auditor/files/2011_CAFR_FINAL.pdf

Fiscal Year 2011 Single Audit, http://auditor.vermont.gov/sites/auditor/files/A133-2011_FINAL.pdf

Performance Audits

Medicaid: Many Provider Enrollment and Claims Controls in Place, but Gaps Exist (11-5, September 15, 2011), <http://auditor.vermont.gov/sites/auditor/files/Final%20Medicaid%20Provider%20Report%20.pdf>

Tax Increment Financing Districts: Town of Milton Appropriately Established Districts, but the Administration Was Flawed (12-1, January 19, 2012), <http://auditor.vermont.gov/sites/auditor/files/Milton%20TIF%20Report%201%2019%202012.pdf>

Medicaid Providers: State Has Foregone an Opportunity to Recover Delinquent Taxes from Providers (12-2, January 31, 2012), <http://auditor.vermont.gov/sites/auditor/files/Final%20Medicaid-Taxes%20report.pdf>

Choices for Care: Desired Outcomes Established, but Evaluation of Actual Results Incomplete (12-4, April 12, 2012), <http://auditor.vermont.gov/sites/auditor/files/Final%20CFC%20report.pdf>

Tax Increment Financing District: City of Burlington Did Not Always Administer Its District According to Statutory Requirements and Did Not Remit All Monies Owed to the State Education Fund (12-3, June 4, 2012), <http://auditor.vermont.gov/sites/auditor/files/Burlington%20TIF%20Final%2006.04.12.pdf>

Vermont Employment Growth Incentive: Progress Under Way on Audit Recommendations (12-5, June 27, 2012), <http://auditor.vermont.gov/sites/auditor/files/VEGI%20Follow-up%20Audit%20-%202012%20%282%29.pdf>

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Other Written Products

Litigation Report: As Required by Act No. 80, Sec. 22a of the Vermont General Assembly, 2007-2008 Session (July 13, 2011),
<http://auditor.vermont.gov/sites/auditor/files/Litigation%20Report%207.13.11.pdf>

Alternative Revenue Sourcing Situation Report (August 31, 2011),
<http://auditor.vermont.gov/sites/auditor/files/Alternative%20Revenue%20Sourcing%20-%20Situation%20Report%20FINAL.pdf>

Vermont Spay Neuter Incentive Program Situation Report (January 9, 2012),
http://auditor.vermont.gov/sites/auditor/files/VSNIP%20Situation%20Report_FINAL_1_13_2012.pdf

Town of Coventry Situation Report (January 31, 2012),
<http://auditor.vermont.gov/sites/auditor/files/Coventry%20situation%20report%201.31.12.pdf>

Department of Building and General Services – Capital Construction Situation Report (February 10, 2012),
<http://auditor.vermont.gov/sites/auditor/files/BGS%20capital%20construction%20situation%20report%20final.pdf>

Department of Children and Families Situation Report (February 13, 2012),
<http://auditor.vermont.gov/sites/auditor/files/DCF%20situation%20report%202.13.12%20final.pdf>

Summary of Audit Findings – FY 2011 (February 15, 2012),
<http://auditor.vermont.gov/sites/auditor/files/SAO%20FY%202011%20Annual%20Report%20of%20Audit%20Findings.pdf>

Vermont Supervisory Unions and School Districts – Fraud, Theft, & Embezzlement (February 20, 2012),
<http://auditor.vermont.gov/sites/auditor/files/SU%20situation%20report%202012%20final.pdf>

Department of Banking, Insurance, Securities, and Health Care Administration (BISCHA) Situation Report (March 2012),
<http://auditor.vermont.gov/sites/auditor/files/BISHCA%20New%20Final%20fixed%206.7.12.pdf>

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List of FY 2012 Products

Department of Public Safety Situation Report (March 2012),
<http://auditor.vermont.gov/sites/auditor/files/DPS%20State%20Police%20final.pdf>

Barre Supervisory Union Situation Report (April 2012),
<http://auditor.vermont.gov/sites/auditor/files/Barre%20SU%20final%204.13.12.pdf>

State Contracts Situation Report (April 2012),
<http://auditor.vermont.gov/sites/auditor/files/New%20Contracts%20situation%20reports%206.7.12.pdf>

Vermont Solid Waste Districts Situation Report (April 2012),
<http://auditor.vermont.gov/sites/auditor/files/Solid%20Waste%20situation%20report%20April%202012%20final.pdf>

Transitional Housing Situation Report (June 2012),
<http://auditor.vermont.gov/sites/auditor/files/DOC%20transitional%20housing%20final%206.6.12.pdf>