

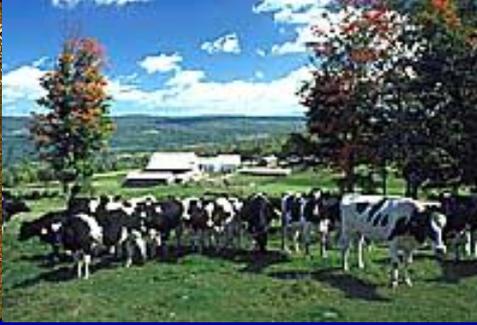


FY2013 Budget Testimony



Thomas M. Salmon, CPA CFE
Vermont State Auditor
January 17, 2012

Protecting Vermont's Taxpayers Since 1790



Agenda

- **Mission of the SAO**
- **SAO staff**
- **Recent accomplishments**
- **Goals for the future**
- **Challenges and opportunities**
- **Budget highlights**



SAO's Mission

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



Authority of the SAO

- **One of five constitutional officers elected statewide**
- **Oversee an independent audit to provide reasonable assurance that the state's financial statements are accurately and fairly presented**
- **Conduct performance audits**
- **Be engaged with various state agencies and departments, sheriffs' departments, and municipalities to add value where opportunities exist, while remaining independent**



How SAO accomplishes its mission

- **Annual audit of state's Comprehensive Annual Financial Report (CAFR)**
- **Annual A-133 audit of expenditures of federal money**
- **Sheriffs' departments and other statutorily required audits**
- **Performance audits and special reviews**



SAO staff

- **Currently at 14 positions including Auditor and Deputy Auditor**
- **Audit staff of nine including Chief Auditor and Director of IT audits**
- **Professional audit staff of nine includes five licensed CPAs - the Auditor is also a CPA and a CFE, a Chartered Accountant (British equivalent of CPA)**
- **Other designations achieved by the staff include CFE, CIA, CISA, CCSA and CPIM**



Recent accomplishments

- **Completed the FY2011 financial statement audit on time**
- **The A-133 is expected to be completed on time by 3/31/12**
- **Issued performance audit reports on:**
 - **Southwest Vermont Supervisory Union**
 - **Department of Corrections – Officer’s Caseloads**
 - **Medicaid – provider enrollment & claims controls**
 - **Town of Newport – TIF Audit**



More accomplishments ...

- **Review of the monitoring and management of Entergy Nuclear Vermont Yankee's Decommissioning Trust Fund**
- **VEGI – Audit of Claims Review Process**
- **Partnered with VLCT, with the cooperation of the GFOA, VMCTA, and the Vermont School Boards Association on a training in June 2011 for financial managers in towns, schools and state government**



Goals for the coming year and beyond

- **Promote government accountability and improve the efficiency and effectiveness of state government through performance audits and other reports**
- **Foster improved communication and financial management across all levels of government**
- **Maintain sustained attention to completing mandated financial audits in a timely and cost-efficient manner**
- **Reduce the number of repeat audits**



Challenges we face

- **Maintaining operational flexibility with a small staff**
- **Maintaining the professional expertise necessary to assist the contractor performing the state's financial statement and A-133 audits under increasingly complex accounting standards and more rigorous auditing standards**
- **Expanding the number of performance audits we can perform when the number of statutorily required audits is increasing**
- **The requirement that the SAO audit TIFs every three years severely limits our resources to perform performance audits**



More challenges

- **Addressing the problem of chronic repeat audits**
- **Child Support Enforcement has had many years of repeat audit findings and will need to be reaudited again in FY2013**
- **Being responsive to issues raised from within state government and by concerned citizens through the SAO's whistleblower hotline**
- **Increasing the utilization of performance measurement and performance audits to improve delivery of government services**



Opportunities

- **The long-term contract negotiated in 2008 with KPMG to perform both A-133 and the state financial audits has enabled the SAO to redirect resources toward conducting performance audits. We have completed our transition from a financial audit office to a performance audit shop.**
- **SAO staff additions over the past few years have strengthened the talent pool and resulted in a more diversified staff, which increases audit flexibility and the ability to conduct performance reviews and investigations**
- **Expand on the successes over the past five years to improve financial management within the state, school, municipal and county levels of government**



Expenditures

SAO's base load expenditures are as follows:

Personal services	\$1,494,375
Contract services	1,501,146
Operating costs	<u>142,405</u>
Total base load expenses	\$3,137,926

Extraordinary expenses :

ARRA audits	\$ 440,000
-------------	------------

TOTAL EXPENDITURES: \$3,577,926



Funding

SAO's expenditures are funded by three sources:

State Internal Service Fund

Base load funding	\$2,705,247
-------------------	-------------

One-time funding (slide 16)	<u>440,000</u>
-----------------------------	----------------

Total:	\$3,145,247
--------	-------------

General Fund	379,580
--------------	---------

Special Fund	<u>53,099</u>
--------------	---------------

TOTAL:	\$3,577,926
---------------	--------------------



Significant budget variances FY2013 vs. FY2012

The total number of A-133 audits in FY2012 was 31 instead of the 15 included in the KPMG contract because of ARRA funds the state spent in FY2011 resulting in an estimated \$640,000 over the base contract price

It is estimated that 26 programs will require A-133 audits in FY2013, due to some continued ARRA funds spending, and repeat audit findings which will cost an estimated \$440,000 over the base contract price



Extraordinary Expenditures

- **ARRA audits - the expenditure of approximately \$340 million in ARRA funds in FY2011 required 16 additional programs to be audited in FY2012. Some ARRA spending will carryover into FY2012 and may require some ARRA audits in FY2013.**
- **The residual effect of the ARRA spending over the past two years is an increase in the number of reaudits in FY2013 because of uncorrected audit findings**
- **Reaudit costs are estimated to be \$440,000 in FY2013 based on the preliminary results of the current A-133 audit**