



STATE OF VERMONT

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

Year ended June 30, 2014

STATE OF VERMONT

Auditors' Reports as Required by Office of
Management and Budget (OMB) Circular A-133 and
Government Auditing Standards and Related Information

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Speaker of the House of Representatives,
President Pro-Tempore of the Senate
and the Governor of the State of Vermont:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Vermont (the State) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 18, 2014. Our report includes a reference to other auditors who audited the financial statements of certain discretely presented component units identified in note IA of the State's basic financial statements, the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, and the Tri-State Lotto Commission, as described in our report on the State's financial statements. Our report also includes an emphasis of matter paragraph noting that the State adopted the provisions Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans* and the Vermont State Colleges, Vermont Sustainable Jobs Fund and the Vermont Municipal Bond Bank, discretely presented component units, adopted the provisions of GASB No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to these matters. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in



internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses finding 2014-001 and finding 2014-002 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses findings 2014-003 and 2014-004 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The State's Response to Findings

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The State's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Colchester, Vermont
December 18, 2014



KPMG LLP
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Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

The Speaker of the House of Representatives,
President Pro-Tempore of the Senate
and the Governor of the State of Vermont:

Report on Compliance for Each Major Federal Program

We have audited the State of Vermont's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the State of Vermont's major federal programs for the year ended June 30, 2014. The State of Vermont's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

As described in note 1(a) to the schedule of expenditures of federal awards and schedule of expenditures of federal awards by Vermont State Agency (the Schedules), the State of Vermont's basic financial statements includes the operations of certain entities whose federal awards are not included in the accompanying Schedules for the year ended June 30, 2014. Our audit, described below, did not include the operations of the entities identified in note 1(a) to the Schedules, because those entities had separate audits in accordance with OMB Circular A-133, if required.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the State of Vermont's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Vermont's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified and modified audit opinions on compliance. However, our audit does not provide a legal determination of the State of Vermont's compliance.



Basis for Qualified Opinions on Certain Major Federal Programs

As described in the accompanying schedule of findings and questioned costs, the State of Vermont did not comply with certain requirements that are applicable to certain of its major federal programs, as detailed below. Compliance with such requirements is necessary, in our opinion, for the State of Vermont to comply with requirements applicable to the identified major federal programs.

Table 1

State agency/ department name	Federal program name	Compliance requirements	Finding number
Agency of Education	Child Nutrition Cluster	Subrecipient Monitoring	2014-005
Agency of Education	Child Nutrition Cluster	Eligibility	2014-006
Agency of Education	Child Nutrition Cluster	Subrecipient Monitoring	2014-007
Agency of Commerce and Community Development	Community Development Block Grant Cluster	Subrecipient Monitoring	2014-012
Department of Labor	Unemployment Insurance	Eligibility, Special Tests and Provisions	2014-014
Department of Labor	WIA Cluster	Allowability	2014-015
Agency of Education	Title I Grants to Local Educational Agencies	Subrecipient Monitoring	2014-019
Agency of Human Services	Rehabilitation Services – Vocational Rehabilitation Grants to States	Eligibility	2014-021
Agency of Human Services	Rehabilitation Services – Vocational Rehabilitation Grants to States	Allowability, Subrecipient Monitoring, Reporting, Cash Management	2014-022
Agency of Education	Special Education Cluster	Subrecipient Monitoring	2014-023
Agency of Education	Twenty-First Century Community Learning Centers	Subrecipient Monitoring	2014-026
Agency of Education	Improving Teacher Quality State Grants	Subrecipient Monitoring	2014-028
Agency of Human Services	TANF Cluster	Eligibility	2014-035
Agency of Human Services	TANF Cluster	Eligibility	2014-036
Agency of Human Services	TANF Cluster	Special Tests and Provisions	2014-037
Agency of Human Services	Low Income Home Energy Assistance	Eligibility	2014-038
Agency of Human Services	Low Income Home Energy Assistance	Allowability, Eligibility	2014-039
Agency of Human Services	Foster Care – Title IV-E	Allowability	2014-040
Agency of Human Services	Foster Care – Title IV-E	Special Tests and Provisions	2014-041
Agency of Human Services	Adoption Assistance	Allowability	2014-042
Agency of Human Services	Social Services Block Grant	Earmarking	2014-043
Agency of Human Services	Children’s Health Insurance Program	Allowability, Eligibility	2014-047
Agency of Human Services	Children’s Health Insurance Program	Allowability, Eligibility	2014-048
Agency of Human Services	Medicaid Cluster	Eligibility	2014-050
Agency of Human Services	Medicaid Cluster	Eligibility	2014-051
Agency of Human Services	Medicaid Cluster	Allowability	2014-052
Agency of Human Services	Medicaid Cluster	Matching	2014-053
Agency of Human Services	Medicaid Cluster	Allowability	2014-054
Agency of Human Services	Medicaid Cluster	Allowability, Special Tests and Provisions	2014-055
Agency of Human Services	Medicaid Cluster	Matching	2014-056



Table 1

State agency/ department name	Federal program name	Compliance requirements	Finding number
Agency of Human Services	Medicaid Cluster	Procurement, Subrecipient Monitoring, Reporting	2014-057
Agency of Human Services	Medicaid Cluster	Eligibility	2014-058
Department of Public Safety	Homeland Security Grant Program	Allowability	2014-061
Department of Public Safety	Homeland Security Grant Program	Subrecipient Monitoring	2014-062
Department of Public Safety	Homeland Security Grant Program	Special Tests and Provisions	2014-063

Qualified Opinions on Major Federal Programs

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on Certain Major Federal Programs* paragraph, the State of Vermont complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs listed in Table 1 above for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the State of Vermont complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2014-008 2014-009, 2014-010, 2014-011, 2014-013, 2014-016, 2014-017, 2014-018, 2014-020, 2014-024, 2014-025, 2014-027, 2014-029, 2014-030, 2014-031, 2014-032, 2014-033, 2014-034, 2014-044, 2014-045, 2014-046, 2014-049, 2014-059, and 2014-060. Our opinion on each major federal program is not modified with respect to these matters.

The State of Vermont’s responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State of Vermont’s responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the State of Vermont is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State of Vermont’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State of Vermont’s internal control over compliance.



Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-005, 2014-006, 2014-007, 2014-012, 2014-014, 2014-015, 2014-019, 2014-021, 2014-022, 2014-023, 2014-026, 2014-028, 2014-031, 2014-035, 2014-036, 2014-037, 2014-038, 2014-039, 2014-040, 2014-041, 2014-042, 2014-043, 2014-047, 2014-048, 2014-050, 2014-051, 2014-052, 2014-053, 2014-054, 2014-055, 2014-056, 2014-057, 2014-058, 2014-061, 2014-062, and 2014-063 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2014-008, 2014-009, 2014-010, 2014-011, 2014-013, 2014-016, 2014-017, 2014-018, 2014-020, 2014-024, 2014-025, 2014-027, 2014-029, 2014-030, 2014-032, 2014-033, 2014-034, 2014-044, 2014-045, 2014-046, 2014-049, 2014-059, and 2014-060 to be significant deficiencies.

The State of Vermont's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State of Vermont's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State as of Vermont, as of and for the year ended June 30, 2014 and related notes to the financial statements which collectively comprise the State of Vermont's basic financial statements. We issued our report thereon dated December 18, 2014, which referred to the use of the reports of other auditors and which contained unmodified opinions on those financial statements. Our report included an emphasis of matter paragraph noting the State of Vermont's adoption of Governmental Accounting Standards Board (GASB) Statement No.67, *Financial Reporting for Pension Plans* and the Vermont State Colleges, Vermont Sustainable Jobs Fund and the Vermont Municipal Bond Bank, discretely presented component units, adopted the provisions of GASB No. 65, *Items Previously Reported as Assets and Liabilities* in the fiscal year ended June 30, 2014.



Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards and schedule of expenditures of federal awards by Vermont State Agency are presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards and schedule of expenditures of federal awards by Vermont State Agency are fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Colchester, Vermont
March 25, 2015

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients
Direct grants:			
Monetary awards:			
U.S. Department of Agriculture:			
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 271,375	—
10.156	Federal-State Marketing Improvement Program	47,460	13,519
10.163	Market Protection and Promotion	3,000	—
10.169	Specialty Crop Block Grant Program	218,774	176,813
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	561,479	—
10.551	Supplemental Nutrition Assistance Program	27,081,164	—
10.555	National School Lunch Program	20,671,858	20,630,634
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	13,984,530	—
10.558	Child and Adult Care Food Program	5,867,218	5,809,841
10.559	Summer Food Service Program for Children	1,036,906	1,003,960
10.560	State Administrative Expenses for Child Nutrition	564,551	—
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10,960,731	2,269,924
10.565	Commodity Supplemental Food Program	227,160	227,160
10.568	Emergency Food Assistance Program (Administrative Costs)	103,795	103,795
10.572	WIC Farmers' Market Nutrition Program (FMNP)	79,135	—
10.574	Team Nutrition Grants	68,601	886
10.575	Farm to School Grant Program	37,438	32,118
10.576	Senior Farmers Market Nutrition Program	63,751	25,875
10.582	Fresh Fruit and Vegetable Program	1,642,002	1,592,803
10.664	Cooperative Forestry Assistance	1,650,527	919,092
10.665	Schools and Roads – Grants to States	302,502	302,502
10.672	Rural Development, Forestry, and Communities	49,634	49,634
10.676	Forest Legacy Program	88,961	—
10.769	Rural Business Enterprise Grant	14,905	14,905
10.912	Environmental Quality Incentive Program	237,831	98,956
10.914	Wildlife Habitat Incentive Program	222,479	—
10.999	Presidential Disaster In FFY2008	13,663	13,663
10.999	Organic Certification – Producers	254,360	—
		86,325,790	33,286,080
U.S. Department of Commerce:			
11.113	ITA Special Projects	60,843	55,079
11.307	Economic Adjustment Assistance	325,903	4,505
11.407	Interjurisdictional Fisheries Act of 1986	5,500	4,948
11.549	State and Local Implementation Grant Program	6,168	—
		398,414	64,532
U.S. Department of Defense:			
12.002	Procurement Technical Assistance For Business Firms	393,459	50,089
12.100	Aquatic Plant Control	191,499	—
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	10,015	—
12.401	National Guard Military Operations and Maintenance (O&M) Projects	19,143,919	—
12.404	National Guard ChalleNGe Program	334,102	—
		20,072,994	50,089
U.S. Department of Housing and Urban Development:			
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	12,958,892	13,322,294
14.231	Emergency Solutions Grants Program	615,532	546,109
14.239	Home Investment Partnerships Program	3,907,848	3,837,469
14.251	Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	86,657	69,544
14.269	Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)	223,605	—
14.999	Office of Fair Housing-Assistance Grant	78,994	—
		17,871,528	17,775,416
U.S. Department of Interior:			
15.605	Sport Fish Restoration Program	3,746,609	—
15.608	Fish and Wildlife Management Assistance	54,577	10,000
15.611	Wildlife Restoration and Basic Hunter Education	3,139,913	76,575
15.615	Cooperative Endangered Species Conservation Fund	20,800	6,500
15.616	Clean Vessel Act Program	34,670	26,017
15.622	Sportfishing and Boating Safety Act	56,425	—
15.626	Enhanced Hunter Education and Safety Program	112,609	109,630
15.631	Partners for Fish and Wildlife	10,000	—
15.633	Landowner Incentive Program	65,753	—
15.634	State Wildlife Grants	699,261	359,203
15.657	Endangered Species Conservation-Recovery Implementation Funds	29,500	—
15.810	National Cooperative Geologic Mapping Program	66,231	13,136
15.814	National Geological and Geophysical Data Preservation Program	3,225	—
15.904	Historic Preservation Fund Grants-In-Aid	621,130	56,789
15.916	Outdoor Recreation – Acquisition, Development and Planning	22,517	22,517
		8,683,220	680,367

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients
U.S. Department of Justice:			
16.013	Violence Against Women Act Court Training and Improvement Grants	\$ 29,852	—
16.017	Sexual Assault Services Formula Program	216,443	207,229
16.523	Juvenile Accountability Block Grants	464,202	286,169
16.540	Juvenile Justice and Delinquency Prevention – Allocation to States	718,750	438,329
16.554	National Criminal History Improvement Program (NCHIP)	42,745	—
16.575	Crime Victim Assistance	1,215,355	593,471
16.576	Crime Victim Compensation	143,368	66,816
16.582	Crime Victim Assistance/Discretionary Grants	19,509	8,775
16.585	Drug Court Discretionary Grant Program	30,362	—
16.588	Violence Against Women Formula Grants	800,702	439,779
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	419,739	300,307
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	14,217	5,280
16.593	Residential Substance Abuse Treatment for State Prisoners	25,962	—
16.607	Bulletproof Vest Partnership Program	9,688	1,515
16.609	Project Safe Neighborhoods	2,896	—
16.710	Public Safety Partnership and Community Policing Grants	165,879	37,819
16.727	Enforcing Underage Drinking Laws Program	85,815	23,507
16.735	PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	97,188	25,000
16.738	Edward Byrne Memorial Justice Assistance Grant Program	631,393	174,075
16.740	Statewide Automated Victim Information Notification (SAVIN) Program	25,874	—
16.741	DNA Backlog Reduction Program	107,077	—
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	80,136	—
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	19,187	—
16.751	Edward Byrne Memorial Competitive Grant Program (SORNA)	33,974	—
16.753	Congressionally Recommended Awards	194,506	—
16.803	ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	205,610	—
16.810	ARRA – Recovery Act – Assistance to Rural Law Enforcement to Combat Crime and Drugs Competitive Grant Program	292,252	—
16.812	Second Chance Act Reentry Initiative	174,711	174,711
16.922	Equitable Sharing Program	486,560	20,691
16.999	Drug Enforcement Administration – DEA	17,581	—
16.999	New England High-Intensity Drug Trafficking Areas (HIDTA)	19,741	—
16.999	ICE/SLOT (formally Bordergap)	6,260	—
16.999	FBI Special Investigations	13,898	—
16.999	Evidence (Asset Seizure) Forfeiture Funds (Justice & Treasury)	17,381	—
16.999	FBI Joint Terrorism Task Force	1,137	—
16.999	US Marshall's District Fugitive Task Force	18,935	—
16.999	Domestic Cannabis Eradication / Suppression Program (DCE/SP) (formally MERT)	17,891	—
		6,866,776	2,803,473
U.S. Department of Labor:			
17.002	Labor Force Statistics	712,123	—
17.005	Compensation and Working Conditions	28,620	—
17.207	Employment Service/Wagner – Peysner Funded Activities	2,963,666	—
17.225	Unemployment Insurance	97,403,680	—
17.235	Senior Community Service Employment Program	467,148	445,540
17.245	Trade Adjustment Assistance	366,838	—
17.258	WIA Adult Program	1,251,656	22,939
17.259	WIA Youth Activities	2,181,008	153,693
17.261	WIA Pilots, Demonstrations, and Research Projects	127,623	37,072
17.271	Work Opportunity Tax Credit Program (WOTC)	66,000	—
17.273	Temporary Labor Certification for Foreign Workers	12,898	—
17.277	Workforce Investment Act (WIA) National Emergency Grants	50,821	—
17.278	WIA Dislocated Worker Formula Grants	1,257,090	—
17.503	Occupational Safety and Health – State Program	698,895	—
17.504	Consultation Agreements	417,906	—
17.600	Mine Health and Safety Grants	10,928	8,358
17.801	Disabled Veterans' Outreach Program (DVOP)	158,097	—
17.802	Veterans' Employment Program	172,772	—
17.804	Local Veterans' Employment Representative Program	99,223	—
		108,446,992	667,602
U.S. Department of Transportation:			
20.106	Airport Improvement Program	5,012,897	—
20.205	Highway Planning and Construction	231,085,516	22,862,426
20.205	ARRA – Highway Planning and Construction	53,616	—
20.218	National Motor Carrier Safety	974,784	—
20.219	Recreational Trails Program	914,484	594,504
20.233	Boarder Enforcement Grants	102,138	—
20.314	Railroad Development	53,187	53,187
20.317	Capital Assistance to States, Intercity Passenger Rail Services	34,163	—
20.319	ARRA – High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	214,182	—
20.500	Federal Transit – Capital Investment Grants	2,277,777	2,277,776
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	160,023	112,317
20.509	Formula Grants for Rural Areas	12,822,459	12,258,436
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities	262,235	262,235

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients
20.516	Job Access And Reverse Commute Program	\$ 32,731	32,731
20.521	New Freedom Program	118,064	118,064
20.600	State and Community Highway Safety	1,866,845	956,125
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	893,004	26,730
20.602	Occupant Protection Incentive Grants	80,257	—
20.608	Minimum Penalties For Repeat Offenders For Driving While Intoxicated	2,572,998	392,150
20.609	Safety Belt Performance Grants	165	—
20.610	State Traffic Safety Information System Improvement Grants	566,803	—
20.612	Incentive Grant Program to Increase Motorcyclist Safety	93,251	—
20.613	Child Safety and Child Booster Seats Incentive Grants	28,801	—
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	15,810	—
20.616	National Priority Safety Programs	427,845	—
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	73,316	35,655
20.721	PHMSA Pipeline Safety Program One Call Grant	171,282	—
20.933	National Infrastructure Investments	1,935	—
		<u>260,910,568</u>	<u>39,982,336</u>
21.000	U.S. Department of Treasury: Equitable Sharing Program (Evidence Forfeiture Funds – EFF)	18,354	—
		<u>18,354</u>	<u>—</u>
45.310	U.S. Institute of Museum and Library Service: Grants to States	956,211	85,402
		<u>956,211</u>	<u>85,402</u>
59.061	U.S. Small Business Administration: State Trade and Export Promotion Pilot Grant Program	99,944	62,400
		<u>99,944</u>	<u>62,400</u>
66.032	U.S. Environmental Protection Agency: State Indoor Radon Grants	143,678	—
66.034	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	206,843	—
66.040	State Clean Diesel Grant Program	117,611	99,485
66.042	Temporally Integrated Monitoring of Ecosystems (TIME) and Long-Term Monitoring (LTM) Program	101,088	—
66.202	Congressionally Mandated Projects	142,079	—
66.454	Water Quality Management Planning	76,788	1,799
66.458	ARRA – Capitalization Grants for Clean Water State Revolving Funds	109,606	109,606
66.458	Capitalization Grants for Clean Water State Revolving Funds	5,235,214	3,946,565
66.461	Regional Wetland Program Development Grants	231,140	—
66.468	Capitalization Grants for Drinking Water State Revolving Funds	8,962,174	5,848,309
66.468	ARRA-Capitalization Grants for Drinking Water State Revolving Funds	334,666	334,666
66.481	Lake Champlain Basin Program	624,504	154,006
66.605	Performance Partnership Grants	3,994,879	—
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	59,347	—
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	238,675	—
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	25,000	—
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	205,248	—
66.708	Pollution Prevention Grants Program	208,570	95,768
66.802	Superfund State, Political Subdivision and Indian Tribe Site-Specific Cooperative Agreements	62,607	—
66.804	Underground Storage Tank Prevention, Detection, and Compliance Program	315,826	—
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	631,272	—
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	111,237	—
66.817	State and Tribal Response Program Grants	607,787	—
66.818	Brownfields Assessment and Cleanup Cooperative Agreements	457,226	424,959
		<u>23,203,065</u>	<u>11,015,163</u>
81.039	U.S. Department of Energy: SHOPP (State Heating Oil and Propane Program)	4,993	—
81.041	State Energy Program	172,316	6,160
81.041	ARRA-State Energy Program	22,503	—
81.042	Weatherization Assistance for Low – Income Persons	850,106	766,592
81.042	ARRA-Weatherization Assistance for Low – Income Persons	206,769	163,298
81.119	State Energy Program Special Projects	367,517	500,000
81.122	ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis	210,768	—
		<u>1,834,972</u>	<u>1,436,050</u>
84.002	U.S. Department of Education: Adult Education – Basic Grants to States	897,723	763,473
84.010	Title I Grants to Local Educational Agencies	31,192,060	30,802,505
84.011	Migrant Education – State Grant Program	610,279	509,658
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	667,343	—
84.027	Special Education – Grants to States	25,358,380	22,942,427
84.048	Career and Technical Education – National Programs	3,545,705	2,984,549
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	15,092,114	—

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients
84.169	Independent Living – State Grants	\$ 232,216	150,000
84.173	Special Education – Preschool Grants	712,191	545,732
84.177	Rehabilitation Services – Independent Living Services for Older Individuals Who are Blind	279,524	225,000
84.181	Special Education – Grants for Infants and Families	2,056,021	—
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	226,683	—
84.196	Education for Homeless Children and Youth	76,905	22,241
84.224	Assistive Technology	335,769	—
84.265	Rehabilitation Training – State Vocational Rehabilitation Unit In-Service Training	114,114	—
84.287	Twenty-First Century Community Learning Centers	5,338,684	5,094,977
84.323	Special Education – State Personnel Development	690,687	278,233
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	18,277	—
84.365	English Language Acquisition State Grants	485,480	333,061
84.366	Mathematics and Science Partnerships	833,197	803,820
84.367	Improving Teacher Quality State Grants	10,458,104	10,140,884
84.369	Grants for State Assessments and Related Activities	2,723,652	—
84.372	Statewide Longitudinal Data Systems	172,943	—
84.377	School Improvement Grants	43,555	36,417
84.388	ARRA-School Improvement Grants, Recovery Act	237,958	165,623
84.412	Race to the Top – Early Learning Challenge	402,143	—
		102,801,707	75,798,600
89.003	U.S. National Archives and Records Administration: National Historical Publications and Records Grants	32,471	—
		32,471	—
90.401	U.S. Election Assistance Commission: Help America Vote Act Requirements Payments	1,508,670	—
90.601	Northern Border Regional Development	1,398	—
		1,510,068	—
93.041	U.S. Department of Health and Human Services: Special Programs for the Aging – Title VII, Chapter 3 – Programs for Prevention of Elder Abuse, Neglect, and Exploitation	22,750	22,750
93.042	Special Programs for the Aging – Title VII, Chapter 2 – Long Term Care Ombudsman Services for Older Individuals	77,162	77,162
93.043	Special Programs for the Aging-Title III, Part D – Disease Prevention and Health Promotion Services	101,998	101,998
93.044	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	1,980,158	1,980,158
93.045	Special Programs for the Aging – Title III, Part C – Nutrition Services	2,728,383	2,728,383
93.048	Special Programs for the Aging – Title IV and Title II – Discretionary Projects	63,666	63,666
93.051	Alzheimer’s Disease Demonstration Grants to States	46,115	—
93.052	National Family Caregiver Support, Title III, Part E	996,284	305,060
93.053	Nutrition Services Incentive Program	820,640	820,640
93.069	Public Health Emergency Preparedness	3,989,990	7,249
93.070	Environmental Public Health and Emergency Response	588,780	52,094
93.071	Medicare Enrollment Assistance Program	62,556	62,556
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	23,305	—
93.090	Guardianship Assistance	33,823	—
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	197,036	134,990
93.103	Food and Drug Administration – Research	518,700	—
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,668,929	1,617,419
93.110	Maternal and Child Health Federal Consolidated Programs	503,911	86,010
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	179,717	—
93.127	Emergency Medical Services for Children	129,897	—
93.130	Cooperative Agreements to States/ Territories for the Coordination and Development of Primary Care Offices	128,495	6,000
93.136	Injury Prevention and Control Research and State and Community Based Programs	69,378	57,857
93.150	Projects for Assistance in Transition from Homelessness (PATH)	299,159	299,159
93.217	Family Planning – Services	738,329	723,579
93.241	State Rural Hospital Flexibility Program	286,288	176,923
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	4,376,343	3,047,690
93.251	Universal Newborn Hearing Screening	248,844	245,987
93.268	Immunization Cooperative Agreements	1,570,266	—
93.270	Adult Viral Hepatitis Prevention and Control	93,845	—
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	3,644,329	417,945
93.296	State Partnership Grant Program to Improve Minority Health	108,500	32,050
93.301	Small Rural Hospital Improvement Grant Program	7,724	—
93.500	Pregnancy Assistance Fund Program	298,584	298,584

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	\$ 1,536,345	—
93.507	PPHF National Public Health Improvement Initiative	814,721	154,575
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	1,350,098	—
93.517	Affordable Care Act – Aging and Disability Resource Center	567,060	447,632
93.519	Affordable Care Act (ACA) – Consumer Assistance Program Grants	143,231	—
93.520	Centers for Disease Control and Prevention – Affordable Care Act (ACA) – Communities Putting Prevention to Work	50,000	—
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	1,235,013	204,233
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	73,786,919	923,253
93.531	PPHF Community Transformation Grants and National Dissemination and Support for Community Transformation Grants – financed solely by Prevention and Public Health Funds	824,660	191,000
93.538	ACA National Environmental Public Health Tracking Program – Network Implementation	660,581	25,000
93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds	376,234	—
93.544	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease Prevention and Health Promotion Program	145,062	25,000
93.550	Transitional Living for Homeless Youth	260,192	241,144
93.556	Promoting Safe and Stable Families	499,914	403,666
93.558	Temporary Assistance for Needy Families	33,394,288	425,467
93.563	Child Support Enforcement	8,660,616	—
93.566	Refugee and Entrant Assistance – State Administered Programs	566,456	320,124
93.568	Low Income Home Energy Assistance	17,720,726	3,935,132
93.569	Community Services Block Grant	3,227,474	3,107,535
93.575	Child Care and Development Block Grant	12,253,006	2,882,951
93.576	Refugee and Entrant Assistance – Discretionary Grants	384,403	358,078
93.586	State Court Improvement Program	215,566	—
93.590	Community – Based Child Abuse Prevention Grants	132,175	132,175
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	7,192,765	337,397
93.597	Grants to States for Access and Visitation Programs	110,616	110,616
93.599	Chafee Education and Training Vouchers Program (ETV)	132,128	111,252
93.600	Head Start	101,860	8,130
93.609	The Affordable Care Act – Medicaid Adult Quality Grants	548,640	—
93.617	Voting Access for Individuals with Disabilities – Grants to States	46,311	37,049
93.624	ACA – State Innovation Models: Funding for Model Design and Model Testing Assistance	2,098,695	—
93.630	Developmental Disabilities Basic Support and Advocacy Grants	452,464	197,150
93.643	Children's Justice Grants to States	56,860	5,000
93.645	Stephanie Tubbs Jones Child Welfare Services Program	536,754	—
93.658	Foster Care – Title IV-E	9,840,220	—
93.659	Adoption Assistance	8,201,322	—
93.667	Social Services Block Grant	7,917,807	713,687
93.669	Child Abuse and Neglect State Grants	98,901	23,481
93.671	Family Violence Prevention and Services Domestic Violence Shelter and Supportive Services	687,074	665,605
93.674	Chafee Foster Care Independence Program	367,771	367,771
93.719	ARRA – State Grants to Promote Health Information Technology	42,459	—
93.767	Children's Health Insurance Program	6,449,151	—
93.775	State Medicaid Fraud Control Units	766,883	—
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	1,445,229	—
93.778	Medical Assistance Program	923,215,835	7,338,475
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	369,632	342,519
93.791	Money Follows the Person Rebalancing Demonstration	2,211,388	253,923
93.889	National Bioterrorism Hospital Preparedness Program	1,538,928	856,366
93.913	Grants to States for Operation of Offices of Rural Health	152,717	42,793
93.917	HIV Care Formula Grants	620,418	439,545
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	58,382	64,220
93.940	HIV Prevention Activities – Health Department Based	1,228,998	825,640
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	156,629	—
93.945	Assistance Programs for Chronic Disease Prevention and Control	484,518	5,000
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	170,048	—
93.958	Block Grants for Community Mental Health Services	826,989	9,000
93.959	Block Grants for Prevention and Treatment of Substance Abuse	4,653,882	2,148,197
93.977	Preventive Health Services – Sexually Transmitted Disease Control Grants	137,002	44,410
93.991	Preventive Health and Health Services Block Grant	132,811	19,711
93.994	Maternal and Child Health Services Block Grant to the States	1,863,010	547,199
		<u>1,170,323,721</u>	<u>42,657,010</u>

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients
	U.S. Corporation for National Community Service:		
94.003	State Commissions	\$ 165,538	—
94.006	AmeriCorps	1,067,883	1,057,040
94.007	Program Development and Innovation Grants	2,447	—
94.009	Training and Technical Assistance	35,269	16,660
94.013	Volunteers in Service to America	30,716	—
		<u>1,301,853</u>	<u>1,073,700</u>
	U.S. Social Security Administration:		
96.001	Social Security – Disability Insurance	5,075,637	—
96.008	Social Security-Work Incentives Planning and Assistance Program	100,000	26,329
		<u>5,175,637</u>	<u>26,329</u>
	U.S. Department of Homeland Security:		
97.012	Boating Safety Financial Assistance	726,828	35,232
97.023	Community Assistance Program – State Support Services Element (CAP – SSSE)	169,364	—
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	43,407,262	20,298,544
97.039	Hazard Mitigation Grant	5,978,203	5,833,322
97.041	National Dam Safety Program	72,329	—
97.042	Emergency Management Performance Grants	2,512,394	923,478
97.043	State Fire Training Systems Grants	17,726	—
97.045	Cooperating Technical Partners	92,033	—
97.047	Pre-Disaster Mitigation	73,350	73,350
97.055	Interoperable Emergency Communications	19,814	—
97.067	Homeland Security Grant Program	6,811,411	3,046,408
97.089	Driver's License Security Grant Program	56,484	—
97.090	Law Enforcement Officer Reimbursement Agreement Program	53,105	46,559
		<u>59,990,303</u>	<u>30,256,893</u>
	Total direct monetary awards	<u>1,876,824,588</u>	<u>257,721,442</u>
	Nonmonetary programs:		
	U.S. Department of Agriculture:		
10.551	Supplemental Nutrition Assistance Program – EBT	109,806,618	—
10.555	National School Lunch Program-Commodities	2,630,806	—
10.565	Commodity Supplemental Food Program – Commodities	746,892	—
	Total U.S. Department of Agriculture	<u>113,184,316</u>	<u>—</u>
	Buildings and General Services:		
39.003	Donation of Federal Surplus Personal Property	495,490	—
		<u>495,490</u>	<u>—</u>
	U.S. Dept of Health and Human Services:		
93.268	Immunization Cooperative Agreements – Vaccines	5,907,229	—
		<u>5,907,229</u>	<u>—</u>
	Total direct nonmonetary federal assistance	<u>119,587,035</u>	<u>—</u>
	Indirect Federal Grants		
11.558	ARRA – State Broadband Data and Development Grant Program	63,122	—
16.746	Capital Case Litigation Initiative	24,298	—
17.261	WIA Pilots, Demonstrations, and Research Projects	100,887	75,398
64.005	Grants to States for Construction of State Home Facilities	153,018	—
81.041	ARRA – State Energy Program	518,356	—
81.087	ARRA – Renewable Energy Research and Development	5,437,490	—
81.128	ARRA – Energy Efficiency and Conservation Block Grant Program (EECCBG)	300,000	—
93.767	Children's Health Insurance Program	96,377	—
	Total indirect federal grants	<u>6,693,548</u>	<u>75,398</u>
	Total direct federal grants	<u>1,996,411,623</u>	<u>257,721,442</u>
	Total federal financial aid expended	<u>\$ 2,003,105,171</u>	<u>257,796,840</u>

See accompanying notes to schedule of expenditures of federal awards and schedule of expenditures by Vermont State Agency.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
by Vermont State Agency
Year ended June 30, 2014

VT agency/department	CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients
Agriculture	10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 271,375	—
Agriculture	10.156	Federal-State Marketing Improvement Program	47,460	13,519
Agriculture	10.163	Market Protection and Promotion	3,000	—
Agriculture	10.169	Specialty Crop Block Grant Program	218,774	176,813
Agriculture	10.475	Cooperative Agreements Grant Program with States for Intrastate Meat and Poultry Inspection	561,479	—
Agriculture	10.575	Farm to School Grant Program	37,438	32,118
Agriculture	10.912	Environmental Quality Incentive Program	237,831	98,956
Agriculture	10.999	Organic Certification – Producers	254,360	—
Agriculture	66.700	Consolidated Pesticide Enforcement Cooperative Agreements	238,675	—
Agriculture	66.708	Pollution Prevention Grants Program	95,346	86,678
Agriculture total			1,965,738	408,084
Attorney General	93.775	State Medicaid Fraud Control Units	706,793	—
Attorney General total			706,793	—
Buildings & General Services	14.251	Economic Development Initiative – Special Neighborhood Initiative and Miscellaneous Grants	15,000	—
Buildings & General Services	39.003	Donation of Federal Surplus Personal Property	495,490	—
Buildings & General Services	64.005	Grants to States for Construction of State Home Facilities	153,018	—
Buildings & General Services	81.041	ARRA – State Energy Program	518,356	—
Buildings & General Services	81.087	ARRA – Renewable Energy Research and Development	5,436,740	—
Buildings & General Services	81.128	ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG)	300,000	—
Buildings & General Services total			6,918,604	—
Commerce	10.769	Rural Business Enterprise Grant	14,905	14,905
Commerce	10.999	Presidential Disaster in FFY2008	13,663	13,663
Commerce	11.113	ITA Special Projects	60,843	55,079
Commerce	11.307	Economic Adjustment Assistance	325,903	4,505
Commerce	12.002	Procurement Technical Assistance For Business Firms	393,459	50,089
Commerce	14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	12,958,892	13,322,294
Commerce	14.239	Home Investment Partnerships Program	3,907,848	3,837,469
Commerce	14.251	Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	71,657	69,544
Commerce	14.269	Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)	223,605	—
Commerce	15.904	Historic Preservation Fund Grants-In-Aid	621,130	56,789
Commerce	59.061	State Trade and Export Promotion Pilot Grant Program	99,944	62,400
Commerce	90.601	Northern Border Regional Development	1,398	—
Commerce	66.818	Brownfields Assessment and Clean Up Cooperative Agreements	440,898	424,959
Commerce total			19,134,145	17,911,696
Criminal Justice Trng Council	93.775	State Medicaid Fraud Control Units	60,090	—
Criminal Justice Trng Council total			60,090	—
Ctr. for Crime Victims Svcs.	16.017	Sexual Assault Services Formula Program	216,443	207,229
Ctr. for Crime Victims Svcs.	16.575	Crime Victim Assistance	1,215,355	593,471
Ctr. for Crime Victims Svcs.	16.576	Crime Victim Compensation	143,368	66,816
Ctr. for Crime Victims Svcs.	16.582	Crime Victim Assistance/Discretionary Grants	19,509	8,775
Ctr. for Crime Victims Svcs.	16.588	Violence Against Women Formula Grants	800,702	439,779
Ctr. for Crime Victims Svcs.	16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	419,739	300,307
Ctr. for Crime Victims Svcs.	16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	14,217	5,280
Ctr. for Crime Victims Svcs.	93.671	Family Violence Prevention and Services Domestic Violence Shelter and Supportive Services	687,074	665,605
Ctr. for Crime Victims Svcs. total			3,516,407	2,287,262
Education	10.555	National School Lunch Program-Commodities	2,630,806	—
Education	10.555	National School Lunch Program	20,671,858	20,630,634
Education	10.558	Child and Adult Care Food Program	5,867,218	5,809,841
Education	10.559	Summer Food Service Program for Children	1,036,906	1,003,960
Education	10.560	State Administrative Expenses for Child Nutrition	564,551	—
Education	10.568	Emergency Food Assistance Program (Administrative Costs)	67,972	67,972
Education	10.574	Team Nutrition Grants	68,601	886
Education	10.582	Fresh Fruit and Vegetable Program	1,642,002	1,592,803
Education	84.002	Adult Education – Basic Grants to States	897,723	763,473
Education	84.010	Title I Grants to Local Educational Agencies	31,192,060	30,802,505
Education	84.011	Migrant Education – State Grant Program	610,279	509,658
Education	84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	667,343	—
Education	84.027	Special Education – Grants to States	25,358,380	22,942,427
Education	84.048	Career and Technical Education – National Grants	3,545,705	2,984,549
Education	84.173	Special Education – Preschool Grants	712,191	545,732
Education	84.196	Education for Homeless Children and Youth	76,905	22,241
Education	84.287	Twenty First Century Community Learning Centers	5,338,684	5,094,977
Education	84.323	Special Education – State Personnel Development	690,687	278,233
Education	84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	18,277	—
Education	84.365	English Language Acquisition Grants	485,480	333,061
Education	84.366	Mathematics and Science Partnerships	833,197	803,820
Education	84.367	Improving Teacher Quality State Grants	10,458,104	10,140,884
Education	84.369	Grants for State Assessments and Related Activities	2,723,652	—
Education	84.372	Statewide Longitudinal Data Systems	172,943	—
Education	84.377	School Improvement Grants	43,555	36,417
Education	84.388	ARRA-School Improvement Grants, Recovery Act	237,958	165,623
Education	93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	58,382	64,220
Education total			116,671,419	104,593,916
Financial Regulation	93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	538,327	—
Financial Regulation	93.519	Affordable Care Act (ACA) – Consumer Assistance Program Grants	143,231	—
Financial Regulation total			681,558	—
Green Mountain Care Board	93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	811,771	—
Green Mountain Care Board total			811,771	—
Human Rights Commission	14.999	Office of Fair Housing-Assistance Grant	78,994	—
Human Rights Commission total			78,994	—
Human Services	10.551	Supplemental Nutrition Assistance Program – Cash	27,081,164	—
Human Services	10.551	Supplemental Nutrition Assistance Program – EBT	109,806,618	—
Human Services	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	13,984,530	—
Human Services	10.561	State Administrative Matching Grants for Supplemental Nutrition Assistance Program	10,960,731	2,269,924
Human Services	10.565	Commodity Supplemental Food Program	227,160	227,160

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
by Vermont State Agency
Year ended June 30, 2014

VT agency/department	CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients
Human Services	10.565	Commodity Supplemental Food Program – Commodities	\$ 746,892	—
Human Services	10.568	Emergency Food Assistance Program (Administrative Costs)	35,823	35,823
Human Services	10.572	WIC Farmers' Market Nutrition Program (FMNP)	79,135	—
Human Services	10.576	Senior Farmers Market Nutrition Program	63,751	25,875
Human Services	14.231	Emergency Solutions Grants Program	615,532	546,109
Human Services	16.523	Juvenile Accountability Block Grants	464,202	286,169
Human Services	16.540	Juvenile Justice and Delinquency Prevention – Allocation to States	718,750	438,329
Human Services	16.727	Enforcing Underage Drinking Laws Program	85,815	23,507
Human Services	16.735	PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	97,188	25,000
Human Services	16.740	Statewide Automated Victim Information Notification (SAVIN) Program	25,874	—
Human Services	16.812	Second Chance Act Prisoner Reentry Initiative	174,711	174,711
Human Services	17.235	Senior Community Service Employment Program	467,148	445,540
Human Services	17.261	WIA Pilots, Demonstrations, and Research Projects	90,551	—
Human Services	66.032	State Indoor Radon Grants	143,678	—
Human Services	66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	25,000	—
Human Services	66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	205,248	—
Human Services	81.042	ARRA – Weatherization Assistance for Low – Income Persons	206,769	163,298
Human Services	81.042	Weatherization Assistance for Low – Income Persons	850,106	766,592
Human Services	84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	15,092,114	—
Human Services	84.169	Independent Living – State Grants	232,216	150,000
Human Services	84.177	Rehabilitation Services – Independent Living Services for Older Individuals Who are Blind	279,524	225,000
Human Services	84.181	Special Education – Grants for Infants and Families	2,056,021	—
Human Services	84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	226,683	—
Human Services	84.224	Assistive Technology	335,769	—
Human Services	84.265	Rehabilitation Training – State Vocational Rehabilitation Unit In-Service Training	114,114	—
Human Services	84.412	Race to the Top – Early Learning Challenge	402,143	—
Human Services	93.041	Special Programs for the Aging – Title VII, Chapter 3 – Programs for Prevention of Elder Abuse, Neglect, and Exploitation	22,750	22,750
Human Services	93.042	Special Programs for the Aging – Title VII, Chapter 2 – Long Term Care Ombudsman Services for Older Individuals	77,162	77,162
Human Services	93.043	Special Programs for the Aging-Title III, Part D – Disease Prevention and Health Promotion Services	101,998	101,998
Human Services	93.044	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	1,980,158	1,980,158
Human Services	93.045	Special Programs for the Aging – Title III, Part C –Nutrition Services	2,728,383	2,728,383
Human Services	93.048	Special Programs for the Aging – Title IV and Title II – Discretionary Projects	63,666	63,666
Human Services	93.051	Alzheimer's Disease Demonstration Grants to States	46,115	—
Human Services	93.052	National Family Caregiver Support, Title III, Part E	996,284	305,060
Human Services	93.053	Nutrition Services Incentive Program	820,640	820,640
Human Services	93.069	Public Health Emergency Preparedness	3,989,990	7,249
Human Services	93.070	Environmental Public Health and Emergency Response	588,780	52,094
Human Services	93.071	Medicare Enrollment Assistance Program	62,556	62,556
Human Services	93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	23,305	—
Human Services	93.090	Guardianship Assistance	33,823	—
Human Services	93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	197,036	134,990
Human Services	93.103	Food and Drug Administration – Research	518,700	—
Human Services	93.104	Comprehensive Community Mental Health Services for Children with Emotional Disturbances (SED)	1,668,929	1,617,419
Human Services	93.110	Maternal and Child Health Federal Consolidated Programs	503,911	86,010
Human Services	93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	179,717	—
Human Services	93.127	Emergency Medical Services for Children	129,897	—
Human Services	93.130	Cooperative Agreements to States/Territories for the Coordination and of Primary Care Offices	128,495	6,000
Human Services	93.136	Injury Prevention and Control Research and State and Community Based Programs	69,378	57,857
Human Services	93.150	Projects for Assistance in Transition from Homelessness (PATH)	299,159	299,159
Human Services	93.217	Family Planning – Services	738,329	723,579
Human Services	93.241	State Rural Hospital Flexibility Program	286,288	176,923
Human Services	93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	4,150,354	3,047,690
Human Services	93.251	Universal Newborn Hearing Screening	248,844	245,987
Human Services	93.268	Immunization Cooperative Agreements	1,570,266	—
Human Services	93.268	Immunization Cooperative Agreements – Vaccine	5,907,229	—
Human Services	93.270	Adult Viral Hepatitis Prevention and Control	93,845	—
Human Services	93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	3,644,329	417,945
Human Services	93.296	State Partnership Grant Program to Improve Minority Health	108,500	32,050
Human Services	93.301	Small Rural Hospital Improvement Grant Program	7,724	—
Human Services	93.500	Pregnancy Assistance Fund Program	298,584	298,584
Human Services	93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	1,536,345	—
Human Services	93.507	PPHF National Public Health Improvement Initiative	814,721	154,575
Human Services	93.517	Affordable Care Act – Aging and Disability Resource Center	567,060	447,632
Human Services	93.520	Centers for Disease Control and Prevention – Affordable Care Act (ACA) – Communities Putting Prevention to Work	50,000	—
Human Services	93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health Informator Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	1,235,013	204,233
Human Services	93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	73,786,919	923,253
Human Services	93.531	PPHF Community Transformation Grants and National Dissemination and Support for Community Transformation Grants – financed solely by Prevention and Public Health Funds	824,660	191,000
Human Services	93.538	ACA National Environmental Public Health Tracking Program – Network Implementation	660,581	25,000
Human Services	93.539	PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds	376,234	—
Human Services	93.544	The Patient Protection and Affordable Care Act of 2010 (Affordable Care Act) authorizes Coordinated Chronic Disease Prevention and Health Promotion Program Transitional Living for Homeless Youth	145,062	25,000
Human Services	93.550	Promoting Safe and Stable Families	260,192	241,144
Human Services	93.558	Temporary Assistance for Needy Families	499,914	403,666
Human Services	93.563	Child Support Enforcement	33,394,288	425,467
Human Services	93.566	Refugee and Entrant Assistance – State Administered Programs	8,660,616	—
Human Services	93.568	Refugee and Entrant Assistance – State Administered Programs	566,456	320,124
Human Services	93.569	Low Income Home Energy Assistance	17,720,726	3,935,132
Human Services	93.575	Community Services Block Grant	3,227,474	3,107,535
Human Services	93.575	Child Care and Development Block Grant	12,253,006	2,882,951
Human Services	93.576	Refugee and Entrant Assistance – Discretionary Grants	384,403	358,078
Human Services	93.590	Community – Based Child Abuse Prevention Grants	132,175	132,175
Human Services	93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	7,192,765	337,397
Human Services	93.597	Grants to States for Access and Visitation Programs	110,616	110,616
Human Services	93.599	Chafee Education and Training Vouchers Program (ETV)	132,128	111,252

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
by Vermont State Agency
Year ended June 30, 2014

VT agency/department	CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients
Human Services	93.600	Head Start	\$ 101,860	8,130
Human Services	93.609	The Affordable Care Act – Medicaid Adult Quality Grants	548,640	—
Human Services	93.624	ACA – State Innovation Models: Funding for Model Design and Model Testing Assistance	2,098,695	—
Human Services	93.630	Developmental Disabilities Basic Support and Advocacy Grants	452,464	197,150
Human Services	93.643	Children’s Justice Grants to States	56,860	5,000
Human Services	93.645	Stephanie Tubbs Jones Child Welfare Services Program	536,754	—
Human Services	93.658	Foster Care – Title IV-E	9,840,220	—
Human Services	93.659	Adoption Assistance	8,201,322	—
Human Services	93.667	Social Services Block Grant	7,917,807	713,687
Human Services	93.669	Child Abuse and Neglect State Grants	98,901	23,481
Human Services	93.674	Chafee Foster Care Independence Program	367,771	367,771
Human Services	93.719	ARRA – State Grants to Promote Health Information Technology	42,459	—
Human Services	93.767	Children’s Health Insurance Program	6,449,151	—
Human Services	93.767	Children’s Health Insurance Program	96,377	—
Human Services	93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	1,445,229	—
Human Services	93.778	Medical Assistance Program	923,215,835	7,338,475
Human Services	93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	369,632	342,519
Human Services	93.791	Money Follows the Person Rebalancing Demonstration	2,211,388	253,923
Human Services	93.889	National Bioterrorism Hospital Preparedness Program	1,538,928	856,366
Human Services	93.913	Grants to States for Operation of Offices of Rural Health	152,717	42,793
Human Services	93.917	HIV Care Formula Grants	620,418	439,545
Human Services	93.940	HIV Prevention Activities – Health Department Based	1,228,998	825,640
Human Services	93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	156,629	—
Human Services	93.945	Assistance Programs for Chronic Disease Prevention and Control	484,518	5,000
Human Services	93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	170,048	—
Human Services	93.958	Block Grants for Community Mental Health Services	826,899	9,000
Human Services	93.959	Block Grants for Prevention and Treatment of Substance Abuse	4,653,882	2,148,197
Human Services	93.977	Preventive Health Services – Sexually Transmitted Disease Control Grants	137,002	44,410
Human Services	93.991	Preventive Health and Health Services Block Grant	132,811	19,711
Human Services	93.994	Maternal and Child Health Services Block Grant to the States	1,863,010	547,199
Human Services	94.003	State Commissions	165,538	—
Human Services	94.006	AmeriCorps	1,067,883	1,057,040
Human Services	94.007	Program Development and Innovation Grants	2,447	—
Human Services	94.009	Training and Technical Assistance	35,269	16,660
Human Services	94.013	Volunteers in Service to America (VISTA)	30,716	—
Human Services	96.001	Social Security – Disability Insurance	5,075,637	—
Human Services	96.008	Social Security-Work Incentives Planning and Assistance Program	100,000	26,329
Human Services total			<u>1,365,206,243</u>	<u>48,793,202</u>
Judiciary	16.013	Violence Against Women Act Court Training and Improvement Grants	29,852	—
Judiciary	16.585	Drug Court Discretionary Grant Program	30,362	—
Judiciary	16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	19,187	—
Judiciary	16.746	Capital Case Litigation Initiative	24,298	—
Judiciary	93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	225,989	—
Judiciary	93.586	State Court Improvement Program	215,566	—
Judiciary total			<u>545,254</u>	<u>—</u>
Labor	17.002	Labor Force Statistics	712,123	—
Labor	17.005	Compensation and Working Conditions	28,620	—
Labor	17.207	Employment Service/Wagner – Poyser Funded Activities	2,963,666	—
Labor	17.225	Unemployment Insurance	97,403,680	—
Labor	17.245	Trade Adjustment Assistance	366,838	—
Labor	17.258	WIA Adult Program	1,251,656	22,939
Labor	17.259	WIA Youth Activities	2,181,008	153,693
Labor	17.261	WIA Pilots, Demonstrations, and Research Projects	100,887	75,398
Labor	17.271	Work Opportunity Tax Credit Program (WOTC)	66,000	—
Labor	17.273	Temporary Labor Certification for Foreign Workers	12,898	—
Labor	17.277	Workforce Investment Act (WIA) National Emergency Grants	50,821	—
Labor	17.278	WIA Dislocated Workers Formula Grants	1,257,090	—
Labor	17.503	Occupational Safety and Health – State Program	698,895	—
Labor	17.504	Consultation Agreements	417,906	—
Labor	17.600	Mine Health and Safety Grants	10,928	8,358
Labor	17.801	Disabled Veterans’ Outreach Program (DVOP)	158,097	—
Labor	17.802	Veterans’ Employment Program	172,772	—
Labor	17.804	Local Veterans’ Employment Representative Program	99,223	—
Labor total			<u>107,953,108</u>	<u>260,388</u>
Libraries	45.310	Grants to States	956,211	85,402
Libraries total			<u>956,211</u>	<u>85,402</u>
Military	12.401	National Guard Military Operations and Maintenance (O&M) Projects	19,143,919	—
Military	12.404	National Guard ChalleNGe Program	334,102	—
Military total			<u>19,478,021</u>	<u>—</u>
Natural Resources-DEC	12.100	Aquatic Plant Control	191,499	—
Natural Resources-DEC	12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	10,015	—
Natural Resources-DEC	15.608	Fish and Wildlife Management Assistance	54,577	10,000
Natural Resources-DEC	15.631	Partners for Fish and Wildlife	10,000	—
Natural Resources-DEC	15.810	National Cooperative Geologic Mapping Program	66,231	13,136
Natural Resources-DEC	15.814	National Geological and Geophysical Data Preservation Program	3,225	—
Natural Resources-DEC	66.034	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	206,843	—
Natural Resources-DEC	66.040	State Clean Diesel Grant Program	117,611	99,485
Natural Resources-DEC	66.042	Temporarily Integrated Monitoring of Ecosystems (TIME) and Long-Term Monitoring (LTM) Program	101,088	—
Natural Resources-DEC	66.202	Congressionally Mandated Projects	142,079	—
Natural Resources-DEC	66.454	Water Quality Management Planning	76,788	1,799
Natural Resources-DEC	66.458	ARRA – Capitalization Grants for Clean Water State Revolving Funds	109,606	109,606
Natural Resources-DEC	66.458	Capitalization Grants for Clean Water State Revolving Funds	5,235,214	3,946,565
Natural Resources-DEC	66.461	Regional Wetland Program Development Grants	231,140	—
Natural Resources-DEC	66.468	Capitalization Grants for Drinking Water State Revolving Funds	8,962,174	5,848,309
Natural Resources-DEC	66.468	ARRA – Capitalization Grants for Drinking Water State Revolving Funds	334,666	334,666
Natural Resources-DEC	66.481	Lake Champlain Basin Program	624,504	154,006
Natural Resources-DEC	66.605	Performance Partnership Grants	3,994,879	—
Natural Resources-DEC	66.608	Environmental Information Exchange Network Grant Program and Related Assistance	59,347	—

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
by Vermont State Agency
Year ended June 30, 2014

VT agency/department	CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients
Natural Resources-DEC	66.708	Pollution Prevention Grants Program	\$ 113,224	9,090
Natural Resources-DEC	66.802	Superfund State, Political Subdivision and Indian Tribe Site-Specific Cooperative Agreements	62,607	—
Natural Resources-DEC	66.804	Underground Storage Tank Prevention, Detection, and Compliance Program	315,826	—
Natural Resources-DEC	66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	631,272	—
Natural Resources-DEC	66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	111,237	—
Natural Resources-DEC	66.817	State and Tribal Response Program Grants	607,787	—
Natural Resources-DEC	66.818	Brownfields Assessment and Cleanup Cooperative Agreements	16,328	—
Natural Resources-DEC	81.087	ARRA – Renewable Energy Research and Development	750	—
Natural Resources-DEC	97.023	Community Assistance Program – State Support Services Element (CAP – SSSE)	169,364	—
Natural Resources-DEC	97.041	National Dam Safety Program	72,329	—
Natural Resources-DEC	97.045	Cooperating Technical Partners	92,033	—
Natural Resources-DEC total			22,724,243	10,526,662
Natural Resources-F&W	10.914	Wildlife Habitat Incentive Program	61,562	—
Natural Resources-F&W	11.407	Interjurisdictional Fisheries Act of 1986	5,500	4,948
Natural Resources-F&W	15.605	Sport Fish Restoration Program	3,746,609	—
Natural Resources-F&W	15.611	Wildlife Restoration and Basic Hunter Education	3,139,913	76,575
Natural Resources-F&W	15.615	Cooperative Endangered Species Conservation Fund	20,800	6,500
Natural Resources-F&W	15.616	Clean Vessel Act Program	34,670	26,017
Natural Resources-F&W	15.622	Sportfishing and Boating Safety Act	56,425	—
Natural Resources-F&W	15.626	Enhanced Hunter Education and Safety Program	112,609	109,630
Natural Resources-F&W	15.633	Landowner Incentive Program	65,753	—
Natural Resources-F&W	15.634	State Wildlife Grants	699,261	359,203
Natural Resources-F&W	15.657	Endangered Species Conservation-Recovery Implementation Funds	29,500	—
Natural Resources-F&W total			7,972,602	582,873
Natural Resources-FPR	10.664	Cooperative Forestry Assistance	1,650,527	919,092
Natural Resources-FPR	10.672	Rural Development, Forestry, and Communities	49,634	49,634
Natural Resources-FPR	10.676	Forest Legacy Program	88,961	—
Natural Resources-FPR	10.914	Wildlife Habitat Incentive Program	160,917	—
Natural Resources-FPR	15.916	Outdoor Recreation – Acquisition, Development and Planning	22,517	22,517
Natural Resources-FPR	20.219	Recreational Trails Program	914,484	594,504
Natural Resources-FPR total			2,887,040	1,585,747
Public Safety	11.549	State and Local Implementation Grant Program	6,168	—
Public Safety	16.554	National Criminal History Improvement Program (NCHIP)	42,745	—
Public Safety	16.593	Residential Substance Abuse Treatment for State Prisoners	25,962	—
Public Safety	16.607	Bulletproof Vest Partnership Program	9,688	1,515
Public Safety	16.609	Project Safe Neighborhoods	2,896	—
Public Safety	16.710	Public Safety Partnership and Community Policing Grants	165,879	37,819
Public Safety	16.738	Edward Byrne Memorial Justice Assistance Grant Program	631,393	174,075
Public Safety	16.741	DNA Backlog Reduction Program	107,077	—
Public Safety	16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	80,136	—
Public Safety	16.751	Edward Byrne Memorial Competitive Grant Program (SORNA)	33,974	—
Public Safety	16.753	Congressionally Recommended Awards	194,506	—
Public Safety	16.803	ARRA – Recovery Act – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	205,610	—
Public Safety	16.810	ARRA – Recovery Act – Assistance to Rural Law Enforcement to Combat Cri+K309me and Drugs Competitive Grant Program	292,252	—
Public Safety	16.922	Equitable Sharing Program (Evidence Forfeiture Funds – EFF) (Asset Seizure) (Justice)	486,560	20,691
Public Safety	16.999	New England High-Intensity Drug Trafficking Areas (HIDTA)	19,741	—
Public Safety	16.999	US Marshall's District Fugitive Task Force	18,935	—
Public Safety	16.999	FBI Joint Terrorism Task Force	1,137	—
Public Safety	16.999	ICE/SLOT (formally Bordergap)	6,260	—
Public Safety	16.999	FBI Special Investigations	13,898	—
Public Safety	16.999	Drug Enforcement Administration – DEA	17,581	—
Public Safety	16.999	Domestic Cannabis Eradication / Suppression Program (DCE/SP) (formally MERT)	17,891	—
Public Safety	17.261	WIA Pilots, Demonstrations, and Research Projects	37,072	37,072
Public Safety	20.600	State and Community Highway Safety	1,866,845	956,125
Public Safety	20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	893,004	26,730
Public Safety	20.602	Occupant Protection Incentive Grants	80,257	—
Public Safety	20.608	Minimum Penalties For Repeat Offenders For Driving While Intoxicated	2,572,998	392,150
Public Safety	20.609	Safety Belt Performance Grants	165	—
Public Safety	20.610	State Traffic Safety Information System Improvement Grants	566,803	—
Public Safety	20.612	Incentive Grant Program to Increase Motorcyclist Safety	93,251	—
Public Safety	20.613	Child Safety and Child Booster Seats Incentive Grants	28,801	—
Public Safety	20.616	National Priority Safety Programs	427,845	—
Public Safety	20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	73,316	35,655
Public Safety	21.000	Equitable Sharing Program (Evidence Forfeiture Funds – EFF)	18,354	—
Public Safety	97.012	State Recreational Boating Safety Program (Marine)	726,828	35,232
Public Safety	97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	3,903	—
Public Safety	97.039	Hazard Mitigation Grant	5,978,203	5,833,322
Public Safety	97.042	Emergency Management Performance Grants	2,512,394	923,478
Public Safety	97.043	State Fire Training Systems Grants	17,726	—
Public Safety	97.047	Pre-Disaster Mitigation	73,350	73,350
Public Safety	97.055	Interoperable Emergency Communications	19,814	—
Public Safety	97.067	Homeland Security Grant Program	6,811,411	3,046,408
Public Safety total			25,182,629	11,593,622
Public Service Board	81.122	ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis	156,763	—
Public Service Board total			156,763	—
Public Service Dept	11.558	ARRA – State Broadband Data and Development Grant Program	63,122	—
Public Service Dept	20.721	PHMSA Pipeline Safety Program One Call Grant	171,282	—
Public Service Dept	81.039	SHOPP (State Heating Oil and Propane Program)	4,993	—
Public Service Dept	81.041	ARRA-State Energy Program	22,503	—
Public Service Dept	81.041	State Energy Program	172,316	6,160
Public Service Dept	81.119	State Energy Program Special Projects	367,517	500,000

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
by Vermont State Agency
Year ended June 30, 2014

VT agency/department	CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients
Public Service Dept	81.122	ARRA-Electric Delivery and Energy Reliability, Research, Development and Analysis	\$ 54,005	—
Public Service Dept total			<u>855,738</u>	<u>506,160</u>
Secretary of State's Office	89.003	National Historical Publications and Records Grants	32,471	—
Secretary of State's Office	90.401	Help America Vote Act Requirements Payments	1,508,670	—
Secretary of State's Office	93.617	Voting Access for Individuals with Disabilities – Grants to States	46,311	37,049
Secretary of State's Office total			<u>1,587,452</u>	<u>37,049</u>
State Treasurer	10.665	Schools and Roads – Grants to States	302,502	302,502
State Treasurer total			<u>302,502</u>	<u>302,502</u>
State's Attorneys & Sheriffs	16.999	Evidence (Asset Seizure) Forfeiture Funds (Justice and Treasury)	17,381	—
State's Attorney's & Sheriffs total			<u>17,381</u>	<u>—</u>
Transportation	20.106	Airport Improvement Program	5,012,897	—
Transportation	20.205	ARRA – Highway Planning and Construction	53,616	—
Transportation	20.205	Highway Planning and Construction	231,085,516	22,862,426
Transportation	20.218	National Motor Carrier Safety	974,784	—
Transportation	20.233	Boarder Enforcement Grants	102,138	—
Transportation	20.314	Railroad Development	53,187	53,187
Transportation	20.317	Capital Assistance to States, Intercity Passenger Rail Services	34,163	—
Transportation	20.319	ARRA-High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	214,182	—
Transportation	20.500	Federal Transit – Capital Investment Grants	2,277,777	2,277,776
Transportation	20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	160,023	112,317
Transportation	20.509	Formula Grants for Rural Areas	12,822,459	12,258,436
Transportation	20.513	Enhanced Mobility of Seniors and Individuals with Disabilities	262,235	262,235
Transportation	20.516	Job Access And Reverse Commute Program	32,731	32,731
Transportation	20.521	New Freedom Program	118,064	118,064
Transportation	20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	15,810	—
Transportation	20.933	National Infrastructure Investments	1,935	—
Transportation	97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	43,403,359	20,298,544
Transportation	97.089	Driver's License Security Grant Program	56,484	—
Transportation	97.090	Law Enforcement Officer Reimbursement Agreement Program	53,105	46,559
Transportation total			<u>296,734,465</u>	<u>58,322,275</u>
Grand total			<u>\$ 2,003,105,171</u>	<u>257,796,840</u>

See accompanying notes to schedule of expenditures of federal awards and schedule of expenditures of federal awards by Vermont State Agency.

STATE OF VERMONT

Notes to Schedule of Expenditures of Federal Awards and Schedule of Expenditures of Federal Awards by Vermont State Agency

Year ended June 30, 2014

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of the State of Vermont (the State) applied in the preparation of the schedule of expenditures of federal awards and the schedule of expenditures of federal awards by Vermont State Agency (the Schedules) are set forth below:

(a) *Single Audit Reporting Entity*

For purposes of complying with the Single Audit Act Amendments of 1996, the State includes all entities that are considered part of the primary government, as described in the basic financial statements as of and for the year ended June 30, 2014. The Schedules do not include component units identified in the notes to the basic financial statements.

The entities listed below are Discretely Presented Component Units in the State's basic financial statements, which received federal financial assistance for the year ended June 30, 2014. Each of these entities is subject to separate audits in compliance with Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, if required.

The federal transactions of the following entities are not reflected in these Schedules:

Vermont Student Assistance Corporation	Vermont Municipal Bond Bank
University of Vermont and State Agricultural College	Vermont Center for Geographic Information
Vermont State College System	Vermont Sustainable Jobs Fund, Inc.
Vermont Educational and Health Buildings Financing Agency	Vermont Transportation Authority
Vermont Housing and Conservation Board	Vermont Veterans' Home
Vermont Economic Development Authority	Vermont Rehabilitation Corporation
	Vermont Telecommunications Authority
	Vermont Housing Finance Agency

(b) *Basis of Presentation*

The information in the accompanying Schedules is presented in accordance with OMB Circular A-133.

1. *Federal Financial Assistance* – Pursuant to the Single Audit Act Amendments of 1996 and OMB Circular A-133, federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, food commodities, direct appropriations, or other assistance and, therefore, are reported on the Schedules. Federal awards do not include direct federal cash payments to individuals.
2. *Type A and Type B Programs* – OMB Circular A-133 establishes the levels of expenditures to be used in defining Type A and Type B federal programs. Type A programs for the State are those programs, or clusters of programs, which equal or exceed \$6,009,316 in expenditures, distributions, or issuances for the fiscal year ended June 30, 2014.

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Notes to Schedule of Expenditures of Federal Awards and
Schedule of Expenditures of Federal Awards by Vermont State Agency

Year ended June 30, 2014

(c) ***Basis of Accounting***

The accompanying Schedules were prepared on the modified accrual basis of accounting.

(d) ***Matching Costs***

Matching costs, i.e., the nonfederal share of certain program costs, are not included in the accompanying Schedules.

(2) Categorization of Expenditures

The categorization of expenditures by program included in the Schedules is based upon the Catalog of Federal Domestic Assistance (CFDA). Changes in the categorization of expenditures occur based upon revisions to the CFDA.

(3) Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency.

(4) Unemployment Insurance (CFDA #17.225)

State unemployment tax revenues must be deposited to the Unemployment Trust Fund in the U.S. Treasury and may only be used to pay benefits under the federally approved State unemployment law. OMB *Circular A-133 Compliance Supplement* requires that State Unemployment Insurance Funds, as well as federal funds, be included in the total expenditures of CFDA #17.225. Unemployment insurance expenditures are classified as follows:

Federal	\$	16,249,794
State		<u>81,153,886</u>
Total	\$	<u><u>97,403,680</u></u>

(5) Airport Improvement Program (CFDA #20.106)

The State receives Federal Aviation Administration (FAA) funds from the U.S. Department of Transportation. The State excludes from its schedule FAA funds received on behalf of the City of Burlington, Vermont (the City) because the State does not perform any program responsibilities or oversight of these funds. Rather, its sole function is to act as a conduit between the federal awarding agency and the City, who owns and operates the airport.

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Notes to Schedule of Expenditures of Federal Awards and Schedule of Expenditures of Federal Awards by Vermont State Agency

Year ended June 30, 2014

(6) **Nonmonetary Federal Financial Assistance**

The State is the recipient of federal programs that do not result in cash receipts or disbursements. Noncash awards included in the Schedules are as follows:

(a) ***Commodity Supplemental Food – Commodities (CFDA #10.565)***

The Commodity Supplemental Food Program provides food and administrative grants to improve the health and nutritional status of low-income pregnant, postpartum and breastfeeding women, infants and children up to, and including, age 5, and elderly persons age 60 years and older through the donation of supplemental USDA foods. Total federal expenditures included in the Schedules for the Commodity Supplemental Food Program – Commodities represent the federal government's acquisition value of the food commodities provided to the State.

(b) ***Donation of Federal Surplus Personal Property (CFDA #39.003)***

The State obtains surplus property from various federal agencies at no cost. The property is then sold by the State to eligible organizations for a nominal service charge. Total federal expenditures included in the Schedules for Donation of Federal Surplus Personal Property represent the federal government's acquisition value of the federal property sold by the State.

(c) ***Immunization Cooperative Agreements – Vaccinations (CFDA #93.268)***

To assist in establishing and maintaining preventive health service programs to immunize individuals against vaccine-preventable diseases, the State provides vaccines to local healthcare providers throughout the year in an effort to ensure that all residents have been properly immunized. Total federal expenditures included in the Schedules for Immunization Cooperative Agreements represent the federal government's acquisition value of the vaccines provided to the State.

(d) ***Supplemental Nutritional Assistance Program (EBT) (CFDA 10.551)***

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The portion of total expenditures for SNAP benefits that is supported by Recovery Act funds varies according to fluctuations in the cost of the Thrifty Food Plan, and to changes in participating households' income, deductions, and assets. This condition prevents USDA from obtaining the regular and Recovery Act components of SNAP benefits expenditures through normal program reporting processes. As an alternative, USDA has computed a weighted average percentage to be applied to the national aggregate SNAP benefits provided to households in order to allocate an appropriate portion thereof to Recovery Act funds. This methodology generates valid results at the national aggregate level but not at the individual State level. Therefore, we cannot validly disaggregate the regular and Recovery Act components of our reported expenditures for SNAP benefits. At the national aggregate level, however, Recovery Act funds account for 7.79% of USDA's total expenditure for SNAP benefits in the federal fiscal year ended September 30, 2013.

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Year ended June 30, 2014

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified		
Internal control over financial reporting:			
• Material weakness(es) identified?	<u> x </u>	yes	<u> </u> no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	<u> x </u>	yes	<u> </u> none reported
Noncompliance material to the financial statements noted?	<u> </u>	yes	<u> x </u> no

Federal Awards

Internal control over major programs:			
• Material weakness(es) identified?	<u> x </u>	yes	<u> </u> no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	<u> x </u>	yes	<u> </u> none reported

Type of auditors' report issued on compliance for major programs: Unmodified except for:

Modified Opinion

- Child Nutrition Cluster (CFDA #10.555 and #10.559)
- Community Development Block Grant Cluster (CFDA #14.228)
- Unemployment Insurance (CFDA #17.225)
- WIA Cluster (CFDA #17.258, #17.259, and #17.278)
- Title I Grants to Local Educational Agencies (CFDA #84.010)
- Rehabilitation Services - Vocational Rehabilitation Grants to States (CFDA #84.126)
- Special Education Cluster (CFDA #84.027 and #84.173)
- Twenty-First Century Community Learning Centers (CFDA #84.287)
- Improving Teacher Quality State Grants (CFDA #84.367)
- TANF Cluster (CFDA #93.558)
- Low Income Home Energy Assistance (CFDA #93.568)
- Foster Care - Title IV-E (CFDA #93.658)
- Adoption Assistance (CFDA #93.659)
- Social Services Block Grant (CFDA #93.667)
- Children's Health Insurance Program (CFDA #93.767)
- Medicaid Cluster (CFDA #93.775, #93.777 and #93.778)
- Homeland Security Grant Program (CFDA #97.067)

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Schedule of Findings and Questioned Costs

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Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? x yes no

Identification of Major Programs

CFDA Number	Name of federal program or cluster
Child Nutrition: Cluster:	
10.555	National School Lunch Program
10.559	Summer Food Service Program for Children
Community: Development Block Grant Cluster:	
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
WIA Cluster:	
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.278	WIA Dislocated Worker Formula Grant
Special Education: Cluster:	
84.027	Special Education – Grants to States
84.173	Special Education – Preschool Grants
Aging Cluster:	
93.044	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers
93.045	Special Programs for the Aging – Title III, Part C – Nutrition Services
93.053	Nutrition Services Incentive Program
TANF Cluster:	
93.558	Temporary Assistance for Needy Families (TANF)
CCDF Cluster:	
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds for the Child Care and Development Fund
Medicaid Cluster:	
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Healthcare Providers and Suppliers (Title XVIII) Medicare
93.778	Medical Assistance Program

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Schedule of Findings and Questioned Costs

Year ended June 30, 2014

CFDA Number	Name of federal program or cluster
Other Programs:	
12.401	National Guard Military Operations and Maintenance (O&M) Projects
17.225	Unemployment Insurance
20.509	Formula Grants for Rural Areas
66.468	Capitalization Grants for Drinking Water State Revolving Funds
66.468	ARRA – Capitalization Grants for Drinking Water State Revolving Funds
84.010	Title I Grants to Local Educational Agencies
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
84.287	Twenty-First Century Community Learning Centers
84.367	Improving Teacher Quality State Grants
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)’s Exchanges
93.568	Low Income Home Energy Assistance
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	Children’s Health Insurance Program
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disaster)
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between type A and type B programs:

\$6,009,316

Auditee qualified as low-risk auditee?

_____ yes x no

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Year ended June 30, 2014

(2) **Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards***

Finding 2014-001 – Department of Finance and Management and Department of Taxes – Review and Analysis of Financial Data

Background

The State's accounting process is very decentralized and relies heavily on the individual departments and agencies to properly and accurately record activity on a timely basis in the State's VISION accounting system as well as to provide year-end closing information to the Department of Finance and Management (Finance) in the form of the year end closing packages. Finance provides the individual departments and agencies with annual guidance on generally accepted accounting principles and the form and content of the information that is required in the year end closing packages; but relies on the individual departments and agencies to completely and accurately compile the data.

Finding

Finance has been working with individual departments and agencies for several years to improve the financial reporting process and reduce the number of data errors and adjustments. Over the last two years Finance has successfully accelerated its reporting timetable and in the most recent audit they conducted their own search for unrecorded liabilities that captured needed adjustments to the financial statements prior to the audit. However, adjustments to the financial statements continue to be identified through the external audit. During the fiscal 2014 audit numerous adjustments were identified at the Department of Taxes related to their taxes receivable and allowance for uncollectible account balances.

In order to capture the receivable data for the financial statements, Finance requires individual departments to prepare a CAFR-1 form. This form is a template that includes VISION chart-field information (i.e. fund, deptid, and account) for all items reported in the previous fiscal year, with subtotals by Business Unit. The departments must determine the full accrual, modified accrual, and an estimate of the uncollectible amount of receivables. They must also report the amount of un-deposited cash on hand, deferred revenue and refund of receipts as of the end of the fiscal year. There are also columns that compare last year's reported amounts to the current year's submitted amounts and if there are large changes in these amounts, there is a column to explain the differences. Along with the CAFR-1 form submission, the department must submit a copy of the procedures used for estimating the allowances for uncollectible receivables.

The Department of Taxes uses a series of Excel worksheets and queries to complete the CAFR-1 form for submission to Finance. This process is manual and highly subject to error, both human and within Excel. The significant adjustments identified and corrected during the fiscal 2014 audit related to the Department of Taxes are as follows:

- 1) General Fund: \$6.0 million decrease in unavailable revenue, \$3.3 million decrease in taxes receivable, \$2.1 million increase in personal income tax revenue, \$0.8 million increase in meals & room tax revenue, \$1.0 million decrease in sales & use tax revenue, and \$0.8 million increase in other tax revenue.

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- 2) Transportation Fund: \$0.1 million decrease in unavailable revenue, \$0.08 million increase in taxes receivable, and \$0.2 million increase in other tax revenue due to errors in the calculation of modified accrual and full accrual revenue related to the aviation jet fuel tax.
- 3) Education Fund: \$0.6 million increase in taxes receivable, \$0.2 million increase in unavailable revenue, and \$0.4 million increase in sales & use tax revenue.
- 4) Special Fund: \$0.04 million decrease in unavailable revenue, \$0.007 million decrease in taxes receivable, and \$0.03 million increase in other tax revenue.

The cause of these adjustments was due to many factors including, the Tax Department not having adequate control procedures over the recording of financial data; improper application of accrual methodology based on the tax type; formula errors within the CAFR-1 Excel spreadsheet that were not identified when finalizing the form; using an incomplete population of collections in July and August for personal income, sales & use, and meals & room taxes related to fiscal 2014 or earlier activity which resulted in an understatement of revenue; the allowance for uncollectible accounts being calculated using the wrong amount of billed receivables resulting in an error in the allowance percentage applied to all tax types which resulted in understatements of the allowance and an overstatement of taxes receivable, net; incorrectly allocating the sales & use revenue between the General Fund and Education Fund as a result of not using the current percentages set by state statute; improperly calculating an allowance for uncollectible accounts over recoveries school property; and improperly accounting for the local option taxes in the year end entries.

While Finance is primarily responsible for the preparation of the State's financial statements, responsibility for the underlying data and activity resides with the Tax Department. These adjustments indicate the continued need for oversight and review of data submitted to ensure that the State's financial statements are complete and accurate.

A similar finding was noted as part of the June 30, 2013 audit report as finding 2013-001. The finding appears to be systemic in nature and is considered a material weakness in internal controls.

Recommendation

We recommend that the Department of Finance and Management work with the Department of Taxes to perform a comprehensive review of their policies and procedures for recording year end receivables and calculating the allowance for uncollectible receivables and implement the necessary controls to help ensure that the State's financial statements are complete and accurate. Finance should work with the Tax Department to provide them with the knowledge and guidance relating to financial accounting and reporting concepts. Finance should also evaluate its procedures for reviewing year end closing packages and for analyzing data for completeness and accuracy of financial information received.

Management Response

The Department of Finance & Management concurs with the finding and recommendation. The Department will continue to work with State agencies and departments to improve their knowledge relating to financial accounting and reporting, and internal controls to help ensure the data which they provide is complete and accurate. The Department will provide updated guidance on receivable accruals in the Internal Controls Newsletter and in the Year-End Closing Instructions. In addition, the Department is planning on providing

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additional detailed communications on receivables accrual procedures to each department to better explain how the agencies should be treating these accrual items. The Department has added additional steps for reviewing year end information received from the departments to improve completeness and accuracy. The Department will work with the Department of Taxes to perform a comprehensive review of their policies and procedures for recording year end receivables and calculating the allowance for uncollectible receivables and implement the necessary controls to help ensure that the State's financial statements are complete and accurate. In addition the Department will work with the Tax Department to provide them with the knowledge and guidance relating to financial accounting and reporting concepts. The expected completion date is June 30, 2015.

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Finding 2014-002 – Department of Vermont Health Access – Capital Assets

Background

Capital assets, as defined by the State's capitalization policy are fixed assets that cost at least \$5,000 and provide future economic benefit for a minimum of two years. Infrastructure assets, as defined by the State's capitalization policy, are physical resources utilized primarily by the public that cost at least \$50,000 and provide future economic benefit for a minimum of three years (e.g. road, bridges, dams, airports, etc.). The State's capitalization policy maintains that all capital assets over \$5,000 and infrastructure assets over \$50,000 are to be capitalized. The State's capitalization policy also states that Construction-in-Process (CIP) projects are to be capitalized and recorded within 60 days after the asset is ready for its intended use. The State's capitalization policy states that CIP projects are to be capitalized and recorded within 60 days after the asset is ready for its intended use.

Governmental Accounting Standards Board, Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* (GASB 51), establishes guidance on how to identify, account for and report intangible assets. Included within the standard is information on internally generated intangible assets which are defined in paragraph 7 as being internally generated if they are created or produced by the government or an entity contracted by the government, or if they are acquired from a third party but require more than minimal incremental effort on the part of the government to begin to achieve their expected level of serve capacity. Computer software is a common type of intangible asset that is internally generated. GASB 51 paragraph 8 outlines the costs incurred related to the development of an internally generated intangible asset that is identifiable should be capitalized only upon the occurrence of all of the following:

- a. Determination of the specific objective of the project and nature of the service capacity that is expected to be provided by the intangible asset upon the completion of the project;
- b. Demonstration of the technical or technological feasibility for completing the project so that the intangible asset will provide its expected service capacity; and
- c. Demonstration of current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible assets.

Costs incurred prior to meeting the above criteria are required to be expensed as incurred. Additionally, this criteria is met once activities in the preliminary project state are completed (this includes the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives for the development of the software) and once Management has implicitly or explicitly authorized and committed to funding.

GASB 51 further defines the activities involved in developing and installing internally generated computer software and groups activities into 3 stages (Preliminary Project Stage, Application Development Stage and Post- Implementation/Operation Stage) and when expenditures should be capitalized versus expensed.

Departments are responsible for maintaining accurate and complete records regarding the acquisition, status, and disposal of all fixed assets and to comply with all applicable accounting and regulatory requirements.

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Finding

The Vermont Department of Vermont Health Access (DVHA) has 3 major computer system projects that are in progress. These projects included the Vermont Health Connect (VHC) System, the Medicaid Management Information System (MMIS), and the Integrated Eligibility System. Currently, the State uses VHC to process and determine eligibility for health insurance for both Medicaid and non-Medicaid determinations. MMIS is used to process all Medicaid claims. Prior to VHC, all Medicaid determinations were performed within the ACCESS System, which syncs directly with MMIS. VHC is not compatible with MMIS, and as a result the ACCESS system is used to hold information related to Medicaid recipients in order for claims to process within MMIS. The State is working on implementing a fully functional integrated eligibility solution that will allow the State to retire the use of the ACCESS system. The Integrated Eligibility System will be compatible with MMIS and will include the migration of Agency of Human Services' programs currently supported by ACCESS.

During fiscal 2014 the VHC system was placed into operation and \$93.4 million was moved out of construction in progress (CIP) to be capitalized. Both the MMIS and Integrated Eligibility Systems have not been placed into operation and the related costs of \$27.8 million remain in CIP as of fiscal year end.

During testwork over capital assets at DVHA, we noted the following internal control deficiencies:

- 1) DVHA does not have a formal policy or documented procedures on how costs related to internally generated software are tracked and capitalized in accordance with the provisions of GASB 51.
- 2) DVHA could not reconcile the CIP deletions detail to the summary amount that was provided by them to the Department of Finance and Management and used to prepare the capital assets footnote disclosure in the financial statements. The un-reconciled variance was \$0.06 million.
- 3) DVHA does not have a formal process for determining what types of costs should be capitalized related to internally generated software, when the project should be capitalized, or how to ensure that all costs associated with the completed project have been properly transferred into depreciable capital assets.

The finding appears to be systemic in nature and is considered a material weakness.

Recommendation

We recommend that DVHA develop formal policies and procedures over intangible assets, specifically internally generated software, to help ensure compliance with GASB 51, that the assets are completely and accurately reported and properly capitalized and that the amounts are reconciled and agree to supporting documentation.

Management Response

The Agency of Human Services (AHS) agrees with the internal control deficiencies cited by the auditor that relate to internally generated software under GASB 51. AHS will develop a policy and procedures that: track and capitalize internally generated software; and describe a process for determining the types of costs to be capitalized, when the project is capitalized; and how costs associated with the completed project are properly transferred into depreciable capital assets.

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In the Agency's opinion, it was able to reconcile the CIP deletions to the summary amount provided by the Department of Finance within reason, but will improve its accuracy and documentation of this process in the future.

Completion of corrective actions: June 30, 2015.

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Finding 2014-003 – Department of Human Resources – Supporting Documentation Missing

Background

The State of Vermont Department of Payroll and Employee Services utilize the Vermont Human Resources (VTHR) Application to manage the employee time, payroll, and benefits. The VTHR application allows employees to enter time, manage benefits, and review payroll information.

The Department of Human Resources (DHR) has a central office as well as Field Offices located throughout State Government. The Field Operations Division serves as the front-line for support and services to the employees of most agencies and departments. The Field Operations Division works closely with the Department of Human Resources' Central Office Divisions. The Human Resources Information System (HRIS) Division is a centralized division of the Department of Human Resources, responsible for timely updates to employee job records and maintenance of various tables and position data in VTHR.

A Personnel Action Request (PAR) process was developed as a method for communicating employee changes in VTHR. With the centralization of record entry in the HRIS Division of the Department of Human Resources, electronic PAR forms were created to provide a more transparent and accessible process for staff in local offices to use to communicate changes and updates to employee records through a department's HR Field Office to the HRIS Division. In many cases PAR forms are used to communicate the hiring or termination of employees at the individual department level.

PAR forms are initiated at the department level and completed by a Requestor and/or HR Field Ops Department and are reviewed and approved by the HR Admin Approver within the department, prior to being sent to HRIS. The changes and updates communicated in the PAR form are processed by HRIS staff, which perform a high level review for reasonableness and make any necessary changes to the PAR, prior to updating the employee's record within the system. HRIS does not receive any supporting documentation for the action requested on the PAR form, as support is required to be maintained at the department level.

Finding

While performing control testwork over the PAR process, we noted the following:

- 1) We selected 15 terminations across the State to perform testwork over. In 2 instances we noted that no supporting documentation (such as a letter of resignation) was maintained at the department level for temporary employees being terminated by the Department of Buildings & General Services and the Vermont State Judiciary.
- 2) We selected 15 hires across the State to perform testwork over. In 1 instance we noted no supporting documentation (such as a signed offer or acceptance letter) was maintained for a full-time employee being hired by the Department of Liquor Control.

The finding appears to be systemic in nature and is considered a significant deficiency.

Recommendation

We recommend that the Department of Human Resources review its internal documentation to ensure that formal written policies and procedures exist to ensure proper documentation to support the hiring and termination of employees, as well as other employee data changes submitted to VTHR via the PAR forms,

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are maintained at the department level. We further recommend that the Department of Human Resources' Central Office perform monitoring reviews at the Field Offices to help ensure that the Field Offices are maintaining adequate support for these employee data changes.

Management Response

The Department of Human Resources (DHR) agrees that strong internal controls are necessary to ensure the accuracy of data changes submitted for employees through the VTHR system. DHR reviewed its policies to see if it has formal policies in place regarding proper support documentation. Personnel Policy 5.4 states that the personnel file for each employee should contain the following information "... A copy of each personnel action form that has authorized any change in employment status, position, classification, pay or leave status, etc." Effective with the implementation of the VTHR system the personnel action form was created in electronic form and retained in the VTHR system and not in the official personnel file as was the practice with the paper PAR. The DHR will review this policy and update it to reflect current practice with an estimated completion date of 6/30/2015. Additional back-up for other PARs will not be maintained, which is in accordance with the DHR records retention schedule, as the information will be collected and maintained in the VTHR system, which contains sufficient security and accuracy controls to address the low level of risk. DHR is in the process of updating its records retention policy, which will determine what information needs to be maintained. The estimated date to complete the updating of the records retention policy is 6/30/2015. In addition to supervisory and management oversight of the various transactional processes conducted by DHR staff, DHR will utilize the Agency of Administration, Financial Services Division, Internal Audit Section, to assist in internal monitoring.

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Finding 2014-004 – Statewide - Information Technology Controls

Background

The State relies heavily on its information technology (IT) systems to process, account for and report on its financial activities. The State’s VISION system serves as the State’s principal financial system and is used to prepare the State’s financial statements. Although the VISION system is the State’s principal financial system, many of the actual financial activities are originated in other departmental managed systems. During the previous three fiscal year audits IT general controls (ITGC) reviews were performed over certain critical IT systems. The purpose of a review of IT controls is to gain an understanding of the controls that are in place and to test the design and operating effectiveness of those controls. During the ITGC review the following control objectives were reviewed: access to programs and data; program changes; program development; and computer operations. These ITGC reviews indicated numerous control deficiencies of varying severity.

As part of the fiscal year 2014 audit the prior year findings were followed up on to ascertain if the identified control deficiencies had been corrected. The following computer systems were part of this follow up:

Findings and Recommendations	
1.	<p>Application Name: State Network & Data Center</p> <p>Responsible Agency: Department of Innovation and Information (DII)</p> <p>Purpose: Statewide local area network</p>
a.	<p>The initial control deficiency related to the fact that the complexity for password parameters was disabled. Weak password constructs increase the risk that computer application access will be compromised leading to a misuse or misappropriation of confidential and sensitive information. As of fiscal year 2014 they increased the minimum length to 8 alpha-numeric characters for all clients except the Agency of Human Services’ ACCESS system.</p> <p>Currently the minimum password length is set to 8 alpha-numeric characters for all clients except for AHS ACCESS.</p> <p>We recommend that DII continue to work towards enabling the complexity for the RACF password parameters.</p>
b.	<p>The Agency/Department notifies DII when user access is to be removed. DII has written procedures requiring the DII RACF Administrator to acquire and review the HR termination list to determine if any access has inappropriately been retained. DII reviews a lock-out report for anomalies, such as hacking attempts, but does not distribute it to departmental RACF Administrators because it is not user friendly. A program has been written to address this problem, but it has not yet been implemented. Absence or lack of prompt communication to responsible IT staff regarding employee terminations could result in the continuance of unauthorized gateways into key systems or application and may lead to the compromise of key systems, application and data assets by unauthorized persons.</p>

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Findings and Recommendations	
	<p>We recommend that DII establish a review process, and determine a process to begin the lock out report process.</p> <p>c. The initial control deficiency related to the fact that backup restoration testing is periodically performed; however, no formal backup or restoration policy existed. Without appropriate and periodic restoration tests, assurance cannot be placed on the reliability of backup media to recover key systems, applications and data assets in the event of an emergency. As of fiscal year 2014 a disaster recovery plan was in draft form, but had not been finalized, and no disaster recovery was performed to ensure the recoverability of the data.</p> <p>We recommend that DII create and implement a policy for backup restoration testing that includes the timing of restoration tests, the scope of the restoration, and the retention of the results of the restoration test.</p> <p>Management Response</p> <p>a. RACF Complex Password –We cannot implement complex password at this time. There are 3rd party system software that are unable to accept complex password. We are scheduled to upgrade CICS in 2015. After this upgrade, we expect all 3rd party software should accept complex password.</p> <p>b. RACF Report – RACF administrators at agencies and departments have been receiving daily and week reports on access exceptions, for example, failed attempts, last logged in etc.</p> <p>c. The mainframe has backup and restore procedures in place. We perform regular disaster recovery testing of the DR mainframe system. Usually, on a quarterly basis. Individual agency/department are responsible for performing restoration testing its application and data. The disaster recovery plan was finalized in November 2014.</p>
2.	<p>Application Name: VISION Financials</p> <p>Responsible Agency: Department of Finance and Management</p> <p>Purpose: Statewide accounting system</p>
	<p>a. The initial control deficiency related to a variety of segregation of duties issues, including:</p> <ul style="list-style-type: none"> • users have superuser_no_sec, vendor processing, and manager roles that allow them to add a vendor, enter a voucher, and approve a voucher. • users have superuser_no_sec and manager roles. • users have been granted the manager role that allows them to enter a voucher and approve a voucher. <p>In addition, there is no edit in VISION that would preclude a user from entering a voucher and approving this same voucher. This is particularly important since State employees are</p>

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	<p>commonly listed as vendors in VISION in order to receive certain reimbursements. Ineffective segregation of duties may permit inappropriate access that leads to the creation and approval by a single individual of fraudulent transactions that compromise the financial integrity of the system.</p> <p>We recommend that Finance, in conjunction with DII, establish and enforce a segregation of duties policy that restricts developers from having added and change access to data. If this policy allows for limited or emergency access, then such access should be monitored. Finance, in conjunction with DII, should reduce the access of certain staff that can perform each of the roles of adding a vendor, entering a voucher, and approving a voucher. Finance, in conjunction with DII, should expeditiously implement a control in VISION to preclude a user from both entering and approving the same voucher. Finance, in conjunction with DII, should evaluate the current role structure in VISION to ensure that the system enforces segregation of duties.</p> <p>b. The initial control deficiency related to the fact that a comprehensive change management policy for the VISION environment did not exist. Moreover, the VISION change management process is not fully documented. The lack of a change management policy with appropriate outlines of approval increase the risk that unauthorized and inappropriate software changes could be put into production leading to the compromise of key applications and data assets. As of the end of fiscal year 2014, a policy was in draft form and Finance & Management was working with DII to implement an overarching change management process with DII.</p> <p>We recommend that Finance, in conjunction with DII, expeditiously document its VISION change management policy and process.</p> <p>Management Response</p> <p>The Department of Finance and Management strongly agrees that segregation of duties is a powerful tool against fraudulent transactions. We have made segregation of duties a key element of our accounts payable and internal control guidance, emphasizing the importance of separating key functions within that process. We also have incorporated this concept into our annual self-assessment of internal controls survey. Although the current configuration of PeopleSoft security has the entry and approval process imbedded in the same role, we have always encouraged manual approval and sign off of invoices be someone different than the person that does the data entry. Additionally, within VISION, entering and approving a voucher does not make that voucher available for payment. To have a voucher move from an approved status to a payable status it still needs to be budget checked. This is the process that actually commits the funds for payment. We strongly encourage that this final step also be performed by someone other than the person that enters and approves. Additionally, there are several accounts payable management reports that are available to departments and widely used that provide insight to payments being made and to whom. Monitoring through reports is a great compensating control for identifying potentially fraudulent payments.</p>

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	<p>The Department of Finance and Management is currently in the midst of a requirements gathering effort for our pending upgrade of VISION from version 8.8 to 9.2. During this effort we have identified as a key requirement the need to modify our accounts payable security roles to decouple the data entry role from the approval role. We are also be reviewing the enhanced workflow functionality and identifying to what degree we will implement.</p> <p>We have implemented a new employee travel and expense reimbursement module. We went live with this new module during May 2013. This module has allowed us to remove all employees from our master vendor file and pay them as employees through our expense module, not the accounts payables module. This has allowed us to remove employees from our vendor file and helped us eliminate the opportunity for employees to process checks to themselves or to coworkers through the account payable module.</p> <p>A Change Management framework, inclusive of a Director-level panel for approval, has been in place since 2013 and continues to evolve.</p>
3.	<p>Application Name: ETM</p> <p>Responsible Agency: Department of Taxes</p> <p>Purpose: State Tax System</p>
	<p>a. The State of Vermont’s IT Security Policy has not been updated since May 2009. An updated or reviewed IT Security Policy provides the end user with comprehensive and up to date information related to IT policies and procedures in place. Lack of an updated policy could result in outdated information being provided to end users and consequently increase risk to security.</p> <p>We recommend that the IT Security policies and procedures be reviewed and updated at least on an annual basis to address all relevant systems and applications and to address new security threats.</p> <p>b. No formal user access review by the business owners of the ETM application is conducted to identify potential separation of duties conflicts. However, on a quarterly basis, Department of Taxes reviews the inactive network accounts to determine that access to ETM was appropriately deactivated. The absence of periodic management reviews of the key application user access increases the risk that active staff may retain processing capability that exceeds their job requirements and undermines a prudent separation-of-duties.</p> <p>We recommend that Department of Taxes management:</p> <ul style="list-style-type: none"> • Develop, publish and enforce a policy to require business application owners to limit staff access privileges to those necessary to perform their jobs and to ensure an appropriate separation of duties.

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	<ul style="list-style-type: none"> • Review user access privileges on a periodic basis and take steps to identify and remove unnecessary or inappropriate application functionality or privileges. <p>c. No formal change management policy/procedure exists for the ETM application environment. A generic change management policy for Department of Taxes exists that was last updated on September 13, 2007. The lack of a formal and enforced Change Management Policy that documents steps to be followed, approvals required, testing to be conducted and acceptance sign-offs to be required for changes to ETM, increases the risk that unauthorized and/or inappropriate software changes could be intentionally or accidentally be placed into production.</p> <p>We recommend that an ETM specific Change Management policy and procedure be documented that describes the software change management process from initiation through migration to production and documents the roles and responsibilities of all parties including the business owners for development, testing and migration.</p> <p>d. While one (1) user has been designated as the primary migratory of software changes, currently ten (10) users have “SYSADM” level access that grants them access to develop and migrate changes to production. Of these 10 users, 2 are vendors from CGI/Oracle. Based on our discussion with the Department of Taxes, we noted that no mitigating or compensating controls exist that could be used to prevent or detect unauthorized changes being made to production. The risk of the introduction of inappropriate software changes is commensurate to the number of persons with the access privileges that support this activity.</p> <p>We recommend that Department of Taxes IT management review current support access and:</p> <ul style="list-style-type: none"> • Limit privileged support access to the minimum needed to support the application in production. • Enforce an appropriate separation of duties between software development staff and those migrating software into. <p>We further recommend that periodic reviews of changes moved to production be conducted to discourage and to identify any unauthorized changes.</p> <p>e. The initial control deficiency related to the fact that no restorations from tape have been conducted for ETM since it went live in August 2010. The lack of periodic restoration of data from backup tapes increases the risk that when needed critical data may not be available to restore business operations. During fiscal year 2013 the Department of Taxes stopped using tape backups for ETM and the systems are now backed up via Net Backup to two data domains. A procedure document has been put in place detailing the steps and processes to follow for restoring data files from Net Backup and three restorations were done during FY 2014, however no documentation was provided evidencing that the restorations took place.</p>

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	<p>We recommend that the Department of Taxes IT periodically test restoration of data from tape to ensure the integrity and completeness of the data and that the backup process and equipment is working as expected.</p> <p>f. ETM currently has no formal, documented or tested Disaster Recovery or Business Continuity Plan. The lack of a comprehensive and tested Disaster Recovery Plan (DRP) and complementary Business Continuity Plan (BCP) increases the risk that in the event of a serious environmental event affecting ETM's operations could be disrupted for an extended period of time.</p> <p>We recommend that Department of Taxes business and IT management take appropriate steps to bring the DRP up to date and augment it with an appropriate BCP and provide resources to ensure an appropriate recovery capability. We further recommend that the DRP and its associated BCP be treated as a living document subject to ongoing revision and that it be tested at least annually.</p> <p>g. No daily operations log/checklists maintained to capture information on daily production such as job processing, backups taken, abends and issues noted. Depending on the specific job schedule, a text message is sent to the Operations group and Department of Taxes notifying if a job ran successfully or not. If error/issues occurred, support personnel are required to follow up and may be required to raise a support ticket if necessary. A formal daily computer operations log/checklist provides evidence that all appropriate processes were completed and if error or abends occurred they were followed up and resolved in an appropriate manner. An appropriate log can also serve as the basis for conducting root cause analysis when dealing with reoccurring issues.</p> <p>We recommend that a documented log/checklist of daily computer operations be introduced. The log should be retained to provide evidence that batch jobs and backups processed to completion and also as a means to identify recurring issues.</p> <p>Management Response</p> <p>a, b, c: A suite of Information Security Policies and procedures, consistent with IRS Publication 1075/NIST 800-53 were drafted as part of a vendor engagement with Berry Dunn during the 2nd half of 2014. They include but are not limited to:</p> <ul style="list-style-type: none">• Access Control• Audit and Accountability• Identification and Authorization• Risk Assessment• Configuration Management• Logging and Monitoring

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	<ul style="list-style-type: none"> • Systems and Information Integrity Additionally a dedicated Tax information security resource is being recruited to complete and maintain them on an ongoing basis as well as assume other ISO type duties. d. ETM is in break/fix mode only. There are only 3 people with the ability to make changes to production code. Separation of duties in this case is not feasible given the current state of staffing and ETM. As explained previously there is separation of duties in regards to database changes for ETM as they are handled by the DII-ERP group. There are no plans to increase staffing. ETM is slated to be replaced and decommissioned in 2017. e. ETM is not backed up to tape. It is backed up via NetBackup to a data domain. As stated previously multiple DB refreshes have been conducted from backups which prove the restore process works. Tax will start to document when the restore process testing is performed. f. Once the Tax information security employee is onboard a DRP will be one of the many tasks on this person's plate. Prioritization against other tasks is TBD. g. Batch processing is the only operational aspect of ETM being performed and our online batch logs and job scheduler output is sufficient.
4.	<p>Application Name: STARS</p> <p>Responsible Agency: Agency of Transportation</p> <p>Purpose: Project Cost Accounting System for Transportation Construction Projects</p>
	<p>The initial control deficiency related to the fact that assets from backup media are only restored when required for Operational reasons and there was no documented Disaster Recovery Plan or activity to restore systems to test recovery procedures. Restoration tests of off-site data backups are performed on a regular basis to determine the usability and integrity of the files. Documentation of the testing results is retained. During fiscal year 2014 AOT performed restorations from the main site using backup tapes successfully; however restores from the backup media at the disaster recovery site have not yet been performed successfully.</p> <p>We recommend that AOT continue to work towards successfully restoring the backup media at the disaster recovery site.</p> <p>Management Response</p> <p>Recommendation was that VTrans continue to work toward successfully restoring STARS backup media at the disaster recovery site. Progress was made in 2013 and resulted in recovery which was mostly successful. However, testing revealed unresolved problems with the CONSTRUCT and FTP portions of STARS.</p>

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	<p>2014 Update:</p> <p>The DR site necessary for further testing is not openly available to VTrans. VTrans has not verified that the unresolved problems with CONSTRUCT and FTP have been resolved. DR site availability and additional disaster recovery testing has been scheduled for February/March 2015. It is anticipated by VTrans IT staff that this scheduled testing will demonstrate that backup recovery issues have been resolved.</p>
5.	<p>Application Name: FARS, VABS and CATS</p> <p>Responsible Agency: Department of Labor (DOL)</p> <p>Purpose: FARS is the Department’s financial accounting system; VABS is the Unemployment Insurance Benefit and Eligibility System; and CATS is the Employer Contribution Tax System</p>
	<p>FARS:</p> <p>a. Reliance is placed on the policies established by the State of VT DII and no specific policies exist for the DOL in regard to the FARS application and support. Lack of established information security function reduces focus on information security and results in inconsistencies with execution of statewide policies and processes.</p> <p>We recommend that the DOL develop a security policy in relation to the FARS application and support which is consistent with DII statewide policy.</p> <p>b. The initial control deficiency related to the fact that access to the computer room required knowledge of the key punch code to open either of the two doors. We observed that the door was left open by the admin desk for people to come and go instead of using the key punch access, as multiple people come into the room to pick up reports during the day and are not IT staff. Additionally, one of the two doors key punch lock was not functioning during our initial visit. Absence of controls over privileged access, powerful utilities and system manager facilities increases the risk of compromise to key IT systems, applications and data assets. As of the 2014 fiscal year end, we observed that the door was shut to access the computer room and clocked by slots that hold reports for employees and the other door requires a key to access. However if the door was not open it was unlocked during working hours and a person could climb over the 3 foot cubicle wall.</p> <p>We recommend that the DOL ensure that the door is locked at all times and that key codes are restricted to appropriate personnel.</p> <p>c. No policy exists stating that a periodic review of FARS access should be performed and no periodic review is performed by Business on active users and their privileges. Currently, an ad hoc review is done as new employee or contractor is added or an existing person is changed. The absence of periodic reviews of system or application access by appropriate</p>

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	<p>Business and/or IT management increases the risk that unauthorized individuals may retain inappropriate access to key systems, applications and data assets.</p> <p>We recommend business management and IT management develop and implement a policy requiring a regular access review to the FARS application at a minimum of an annual basis.</p>
d.	<p>The initial control deficiency related to the lack of policies for changes to the infrastructure or the operating system as well as an emergency change management policy for the FARS Application, which has not been vendor supported since 1991 and updates are performed by Roger Lowe. The absence of authorization over the change management of application software changes may result in the intentional or unintentional migration of invalid application changes into production that lead to the compromise of key systems, applications and data assets. As of 2014 fiscal year end, the Change Management Policy is in draft form and is applicable for Emergency Changes as well as covering infrastructure and operating system changes. This policy is pending updated data and additional input from the Configuration and Change Management Board.</p> <p>We recommend that the DOL develop, introduce and monitor a comprehensive change management policy that include emergency changes and that is consistent with the statewide DII policy.</p>
e.	<p>Changes to the system are not consistently made until after an appropriate level of testing is performed and approved, which is not always in writing. An absence of formal testing and appropriate sign-off by both information systems and user personnel increases the risk that unauthorized or untested changes may be migrated into production.</p> <p>We recommend that the DOL develop, introduce and monitor a comprehensive change management policy that is consistent with the statewide DII policy.</p>
f.	<p>No segregation of duties exists for the FARS application as Roger Lowe and Joe Lucia have access to development and production. A lack of control over who has the ability to migrate software changes into production increases the risk that inappropriate and unauthorized changes could be made to software, moved undetected into production.</p> <p>We recommend that the DOL implement a process to segregate the migration of changes to production that would alternate between Roger Lowe and Joe Lucia. This would accomplish the segregation without adding another resource.</p>
g.	<p>Restoration of backup data is performed on an as needed basis; however, no regular tests or policy exists. Without appropriate and periodic restoration tests, assurance cannot be placed on the reliability of backup media to recover key systems, application and data assets in the event of an emergency.</p>

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	<p>We recommend that the DOL develop and document the process to test on a regular basis restoral of data from tapes. The regularity of the test should be documented and maintained for the State's retention period.</p> <p>VABS and CATS:</p> <p>h. DOL applications (VABS and CATS) had weak password syntax with a minimum of 3 and maximum of 6 character required. Weak password parameters create weaknesses that can be exploited to gain unauthorized access leading to the compromise of key systems, applications and data assets.</p> <p>The current VSE/ESA system limits passwords from 3 to 6 characters in length.</p> <p>We recommend that the DOL IT upgrade to a newer version of IBM o/s that supports longer passwords.</p> <p>i. The initial control deficiency related to the fact that reviews of Access Lists indicated that there was no regular, periodic review of the DOL user access rights to the IBM systems supporting VABS and CATS. The absence of periodic reviews of system or application access by appropriate Business and/or IT management increases the risk that unauthorized individuals may retain inappropriate access to key systems, applications and data assets. As of the 2014 fiscal year end, the DOL rescinds user access as their status changes daily through the Helpstar tracking system and reviews are performed quarterly. However, we were unable to obtain evidence to substantiate that quarterly reviews are performed for VABS/CATS.</p> <p>We recommend the DOL IBM Support Group (with input from the DOL HR) conduct a quarterly review of the DOL staff with access to DOL's IBM mainframe and deactivate inactive users pending further review with HR and should remove access from accounts for terminated employees and maintain documentation of this review.</p> <p>j. The initial control deficiency related to the fact that there was no periodic review of the DOL user access rights to the DOL network. The absence of periodic reviews of system or application access by appropriate Business and/or IT management increases the risk that unauthorized individuals may retain inappropriate access to key systems, applications and data assets. As of the 2014 fiscal year end, the DOL rescinds user access as their status changes daily through the Helpstar tracking system and reviews are performed quarterly. However, we were unable to obtain evidence to substantiate that quarterly reviews are performed for VABS/CATS.</p> <p>Werecommend the DOL Network group (with input from HR) conduct a quarterly review of the DOL staff with access to the DOL's network assets and deactivate inactive users pending further review and should remove access from accounts for terminated employees and maintain documentation of this review.</p>

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k.	<p>The initial control deficiency related to the fact that there is no periodic review by business management of functional DOL user access to the VABS & CATS applications. The lack of a periodic review of functional access to applications by Business Management may result in the continued and inappropriate access to application functionality by individuals and increases the risk that inappropriate transactions can be processed. As of the 2014 fiscal year end, the DOL rescinds user access as their status changes daily through the Helpstar tracking system and reviews are performed quarterly. However, we were unable to obtain evidence to substantiate that quarterly reviews are performed for VABS/CATS.</p> <p>We recommend the DOL IT develop and generate every quarter a detailed report by User-ID that lists Functional capability within both the VABS & CATS applications. We further recommend that the DOL UI Business Management review the report every quarter to ensure that user access is current and appropriate and the DOL IT take immediate steps to remove application access no longer authorized by UI Management. Documentation of the review by the UI Business Management should be maintained.</p>
l.	<p>The initial control deficiency related to the fact that requests for VABS and/or CATS changes are informal and IT staff receive verbal requests and e-mails detailing small changes; however more complex requests may be discussed at staff meetings. The absence of authorization over the change management of application software changes may result in the intentional or unintentional migration of invalid application changes into production that lead to the compromise of key systems, applications and data assets. As of 2014 fiscal year end, the process for program changes has been documented within the Change Management Policy. However this policy is in draft form and is pending updated data and additional input from the Configuration and Change Management Board.</p> <p>We recommend that the DOL introduce a formal Change Request document that requires information on the change required and Management approval before work can be started.</p>
m.	<p>The initial control deficiency related to the fact that software development, modification or error correction changes were informally managed. While testing of changes was undertaken in a test environment by development staff, unless the changes are complex, there was generally no business user participation in testing. Business user/management sign-off was not required or solicited by IT development. Due to lack of an IT manager, IT sign-off was not formally conducted. The absence of authorization over the change management of application software changes may result in the intentional or unintentional migration of invalid application changes into production that lead to the compromise of key systems, applications and data assets. As of 2014 fiscal year end, the process for program changes has been documented within the Change Management Policy. However this policy is in draft form and is pending updated data and additional input from the Configuration and Change Management Board.</p> <p>We recommend that one business signoff be required on an appropriately initiated Change Request form to confirm that testing was appropriate and successfully completed. We further</p>

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	<p>recommend that the software change not be put into Production (by appropriate IT Operations staff) unless there is Business approval and sign-off.</p>
n.	<p>The initial control deficiency related to the fact that there was no DOL policy or procedure detailing with VABS and CATS Change Management. A lack of control over who has the ability to migrate software changes into production increases the risk that inappropriate and unauthorized changes could be made to software, moved undetected into production. As of 2014 fiscal year end, the Change Management Policy has been documented for the DOL. However this policy is in draft form and is pending updated data and additional input from the Configuration and Change Management Board.</p> <p>We recommend that the DOL develop, introduce, and monitor a comprehensive DOL Change Management Policy for application software which is consistent with any statewide DII policy on Change Management.</p>
o.	<p>Due to the small size of the DOL's IT staff, developers are permitted to migrate software into production. An ability of IT development staff to migrate application software into production risks the introduction of inappropriate code changes.</p> <p>We recommend that access to and migration of software into the production environment should be restricted to Production Control/Operations staff only.</p>
p.	<p>Business management is rarely involved in testing or authorizing of application changes including configuration changes. All VABS and CATS application configuration changes are tested by application development staff but are not required to be validated by the business. An absence of appropriate testing and approvals by IT and Business personnel over application configuration changes may lead to the introduction into production of inappropriate and unauthorized changes that could adversely affect the results of financial application processing.</p> <p>We recommend that all changes to production software including configuration changes should be formally approved and authorized by appropriate Business owners.</p>
q.	<p>There is no policy or procedure to handle Emergency Changes. A lack of emergency change procedures that document changes made to production applications and jobs makes follow-up and future avoidance difficult and increases the risk that inappropriate or incorrect changes go undetected. Written policies and procedures also provide for continuity of operation during times of staff transition.</p> <p>We recommend that the DOL develop, introduce, and monitor a comprehensive DOL Emergency Change Policy which is consistent with any statewide DII policy on Change Management. It is further recommended that a statewide policy on dealing with Emergency Production changes be written and introduced by DII.</p>

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r.	<p>Notification of emergency changes to Management is informal and not mandatory. There is no requirement for retrospective review and authorization. The absence of management reviews of emergency changes risks that inappropriate or incorrect modifications to applications could be introduced and remain undetected.</p> <p>We recommend that all emergency changes to batch runs should be documented and notified to Business and appropriate IT management in a timely fashion.</p>
s.	<p>Assets from backup media are restored when required for Operational reasons. There is no documented Disaster Recovery Plan or activity to restore systems to test recovery procedures. Without appropriate and periodic restoration tests, assurance cannot be placed on the reliability of backup media to recover key systems, applications and data assets in the event of an emergency.</p> <p>We recommend that VDOL IT should immediately develop and document a Disaster Recovery Plan for recovering its IBM and related applications in the event of a data center disaster.</p> <p><i>Management Response</i></p>
a.	<p>DOL has developed a VABS/FARS/CATSspecific security policy named Policy 21 – “Security Policies for the Labor Enterprise Computing (LEC) System” which is based upon existing DII policy. This policy was signed on February 25, 2015 and will be fully implemented by the end of March 2015.</p>
b.	<p>VDOL Central Office is card access entry only. Non employees are escorted when they are admitted. The access door to the data center with key punch is now working, and has been reinforced with a magnetic lock mechanism. The unlocked door allowing staff access to pick up print outs is protected by the fact that the building is locked down and that nonemployees are escorted. Key codes to the key pad door are restricted and periodically reviewed and the door to print outs will remain unlocked to staff during normal working hours. The door keypad code is changed quarterly and a review of all staff with access is done at that time.</p>
c.	<p>Quarterly review and signoff by VDOL Director of Administrative Services is now documented.</p>
d.	<p>VDOL Policy 21 “Security Policies for the Labor Enterprise Computing (LEC) System” was released on February 25, 2015 and will be fully implemented by March 31, 2015.</p>
e.	<p>VDOL Policy 22 “Policy for Change and Configuration Management” was released on February 25, 2015 and will be fully implemented by March 31, 2015.</p>

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	<p>f. VDOL Policy 22 “Policy for Change and Configuration Management” addresses this issue. However, regardless of the role currently played by programmers Lowe or Lucia, production sign off resides with IT Manager Hunter Thompson.</p> <p>g. IT Disaster Contingency review was last conducted in September 2012 by BerryDunn. No annual review has been done since that review when we deactivated our license upon change of VDOL Personnel in charge of initiation. Prior to 2012 we did not own replacement hardware; nor had it been licensed or tested off site for Disaster Recovery Purposes. We will be contracting with a vendor to explore recertification of this hardware and software with an eye to either licensing again full time or having licensing in place on an emergency needs basis. This process should be completed in the fall 2015 time period and once completed VDOL will conduct testing on a regular basis.</p> <p>h. VDOL follows the State of Vermont password policy network access <u>and</u> maintains its own in-house AD settings that exceed that requirement. An individual cannot gain access to VABS/CATSpasword screen without first complying with these standards.</p> <p>i. VDOL runs a quarterly report that contains all employee names and lists their VABS/CATSaccess by category. We require a sign off on this listing quarterly. This is covered in DOL Policy 21 “Security Policies for the Labor Enterprise Computing (LEC) System.</p> <p>j. VDOL removes individual user’s access as they leave the department. Physical access cards are recovered or deactivated, domain access is removed, and any departmental equipment is recovered through the office of the Director of Administrative Services working with DHR. We consider the quarterly review by UI Director as back up to this process for VABS/CATS.</p> <p>k. The quarterly report described in Item I addresses this issue.</p> <p>l, m, n, o, p, q, r: VDOL Policy 22 “Policy for Change and Configuration Management” addresses this issue.</p> <p>s. IT Disaster Contingency review was last conducted in Sept 2012 by BerryDunn. No annual review has been done since that review when we deactivated our license upon change of VDOL Personnel in charge of initiation. Prior to 2012 we did not own replacement hardware; nor had it been licensed or tested off site for Disaster Recovery Purposes. We will be contracting with a vendor to explore recertification of this hardware and software with an eye to either licensing again full time or having licensing in place on an emergency needs basis. We should have that process completed in the September to December 2015 time period.</p>
6.	<p>Application Name: Management System (WMS), Point of Sale (POS), and Sequoia</p> <p>Responsible Agency: Division of Liquor Control</p>

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	<p>Purpose: Manages warehousing, inventory, purchasing, AP, tracking of sales/revenues, commission, licensing and GL. In addition, Point of Sale terminals which are owned by the State and are installed in each store.</p>
	<p>The Programmer and Developer have access to both the development and production environment for Sequoia and POS. A lack of control over who has the ability to migrate software changes into production increases the risk that inappropriate and unauthorized changes could be made to software, moved undetected into production.</p> <p>We recommend a clear separation of access be created to restrict developers from having production access. This can be implemented with different resources, or with a work around that logs changes made by a developer that require a Manager’s review and approval.</p> <p>Management Response</p> <p>As noted in our IT Change Management Policy (Version 1.0) instituted in October 2012 in response to previous auditor recommendations, these procedures are already in effect. In each of the two systems for which in-house development is still possible, the developer does not put changes into production.</p> <p>Due to limitations in staff, the specific role depends on the system. For Sequoia, the Systems Developer does development and the IT manager approves all changes before they are moved to production. For Point of Sale, there is no development occurring as these systems will be replaced as part of our new retail and POS system slated to roll out in early FY16.</p> <p>In addition, changes are logged in the Help Desk for review and a permanent record. All change logs are visible to all DLC staff members, including both IT and other staff up to and including the Commissioner.</p> <p>Development is not possible in the Warehouse Management System (WMS) since it is a commercial software package developed by a third party, so there is no development to manage or restrict. (Even there, the Help Desk is used to log issues, although those issues are resolved with calls to the software provider, since the Help Desk is used to log all IT activities, not just development).</p>
7.	<p>Application Name: BFIS</p> <p>Responsible Agency: Agency of Human Services (AHS)</p> <p>Purpose: A system for Human Services Child Care Subsidy Payments</p>
	<p>No formalized process is defined or utilized to respond to problems and issues by receipt of an email or a helpdesk ticket.</p>

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	<p>We recommend that the Agency develop and utilize a tool that allows them to identify and track all problems and issues for the application.</p> <p>Management Response</p> <p>The State of Vermont implemented a new ticketing system called LANDesk on December 1, 2014. DCF is currently working with them to develop a workflow process to enable us to use this tool for ticket tracking and resolution.</p>
8.	<p>Application Name: SSMIS</p> <p>Responsible Agency: Agency of Human Services (AHS)</p> <p>Purpose: A benefit and eligibility system for Foster Care, Adoption Assistance and Social Services Block Grant Programs</p>
	<p>a. Password parameters are weak with no policies other than recommendations of data dictionary words that should not be used.</p> <p>We recommend that the Agency create and implement a set of standard password parameters.</p> <p>b. SSMIS perform ad hoc reviews of user access; however, the review is not formally documented or occurrence defined.</p> <p>We recommend that the Agency create and implement a formal process for a review of access rights to the application and appropriate sign off retention of the performance of the review should be retained.</p> <p>c. The Agency does not have formalized change management policy that outlines the requirements for making changes, obtaining approvals and the retention of the documents.</p> <p>We recommend that the Agency create a change management policy should be developed and issued for SSMIS and communicated to the organization.</p> <p>d. There is no formalized change management policy that requires that testing and approvals are obtained prior to migrating a change into production.</p> <p>We recommend that the Agency create a change management policy should be developed that defines the requirements for appropriate testing and approvals of testing prior to changes being migrated into production.</p> <p>Management Response</p> <p>a. Compliant password parameters are being implemented as part of the SSMIS Upgrade project. This project is behind schedule; however, significant progress has been made. The upgraded system has been built and has undergone unit and user acceptance testing. Issues and change</p>

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	Findings and Recommendations
	<p>requests were identified during testing and the developer is working on them. We anticipate a go-live date of July 1, 2015.</p> <p>b. A formal process for reviewing access rights to the application and appropriate sign off retention of the performance of the review is being created as part of the SSMIS Upgrade project which is anticipated to go live on July 1, 2015.</p> <p>c. JIRA has been formally adopted, as discussed in our 2013 response. Due to increasing security standards set by CMS, over the past year IT Security staff created over a dozen new security policies relating to the new health care exchange. These new policies are slated to extend to the ACCESS system due to interconnectivity agreement requirements and will augment or replace existing AHS IT policies as part of an ongoing annual review cycle. These policies are available upon request.</p> <p>d. Even though the SSMIS upgrade is behind schedule, the code review procedures were put into place in August, 2014.</p>
9.	<p>Application Name: ACCESS</p> <p>Responsible Agency: Agency of Human Services (AHS)</p> <p>Purpose: Benefit and Eligibility System for Human Service Cash Assistance Programs</p>
	<p>a. We noted that appropriate IT Security Policy exists and is communicated to employees via intranet. However, no evidence was provided to substantiate that the policies are reviewed periodically and updated by management. We noted that several of the policies have not been revised since more than a year.</p> <p>We recommend that IT Security Policies be reviewed on an annual basis to ensure compliance with new regulations as well as to address potential security threats.</p> <p>b. A change management document was not provided for review. KPMG was notified that DCF ISD has formed a Standards Committee which will be working on the development of a formal written policy and procedure. These documents are to be completed by the end of calendar year 2013.</p> <p>We recommend that AHS develops processes and mechanisms to implement these policies as well.</p> <p>c. AHS does not have appropriate segregation of duties. Personnel who have development responsibilities currently have access to migrate changes to the production environment. KPMG was informed that AHS is currently going to a reorganization that will address the segregation of duties requirements.</p>

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Year ended June 30, 2014

	Findings and Recommendations
	<p>We recommend that conflicts of interest and concentration of power with any role be evaluated as part of the reorganization.</p> <p>d. We noted that no ticketing system is used to track issues. The current process is manual and the mainframe group keeps track of issues via a spreadsheet. In addition, there is no formally documented process for logging issues and tracking them to resolution. Without a formally documented process for logging issues as well as appropriate controls in place to ensure that all issues are logged and tracked through resolution, there is a risk that all issue may not be tracked or resolved in a timely manner.</p> <p>We recommend that the Agency utilize a ticketing system to manage the documentation of issues and problems to ensure proper management and resolution. A ticketing system provides appropriate structure and control to ensure that all problems are managed to resolution. Furthermore a formally documented policies and procedures should be in place to include process of tracking, categorizing and resolving issues in a timely manner.</p> <p><i>Management Response</i></p> <p>a. AHS IT policies are still under review. We continue to work with the new State Chief Information Security Officer to implement policies at the State level.</p> <p>b. The DCF ISD Standards Committee has not developed change management policy; however, ESD's Business Application Support Unit has been created and began oversight responsibilities for change requests in August 2014.</p> <p>c. Within our teams we strive to have separation of duties. A developer who has made changes to programming does not migrate those changes to production without another developer reviewing the code. Although this is not a formal policy, it is standard practice. As we continue to improve our internal work processes we will strive to improve in this area and will evaluate conflicts of interest and concentration of power with any role as part of our continuous efforts toward improvement.</p> <p>d. The State of Vermont implemented a new ticketing system called LANDesk on December 1, 2014. DCF is currently working with them to develop a workflow process to enable us to use this tool for ticket tracking and resolution.</p>

The finding appears to be systemic in nature and is considered to be a significant deficiency. A similar finding was noted as part of the June 30, 2013 audit report as finding 2013-003.

Management Response

Responses are embedded in the above table.

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Year ended June 30, 2014

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2014-005

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster:

National School Lunch Program (CFDA #10.555)

Summer Food Service Program for Children (CFDA #10.559)

Program Award Number and Year

2011IN350330	7/1/10–9/30/11
2011IN351030	7/1/10–9/30/11
20128L260344	7/1/11–9/30/12
2013IN160344	7/1/12–9/30/12
2013IN105044	7/1/12–9/30/13
2013IN109044	7/1/12–9/30/13
2013IN109744	7/1/12–9/30/13
2013IN202044	7/1/12–9/30/13
2013IN253322	7/1/12–9/30/13
2013IN254544	7/1/12–9/30/13
2014CL160344	7/1/13–9/30/14
2014CN109044	7/1/13–9/30/14
2014CN109844	7/1/13–9/30/14
2014CN202044	7/1/13–9/30/14
2014CN253344	7/1/13–9/30/14

Criteria

A pass-through entity is responsible for (1) ensuring that subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's fiscal year-end; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.

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Condition Found

The State of Vermont (the State) utilizes a grant tracking module within the VISION system (the State's centralized accounting system) that helps track subrecipient grants that are entered into by the State, and includes information such as the subrecipient name, the grant period and the amount of funds granted. This information is used annually to solicit data from the State's subrecipients concerning their total federal funds expended during the year and whether or not the subrecipient is required to have an A-133 audit. If an A-133 audit is required, the State will designate a primary pass-through entity within the State to obtain and review the results of the subrecipient's A-133 audit. The result of this review is documented within the VISION grant tracking module by the designated primary pass-through entity.

During our testwork over subrecipient monitoring, we noted the Vermont Agency of Education (the Agency) does not enter grants to School Food Authorities (SFA or subrecipients) under the Child Nutrition Cluster into the VISION grant tracking module. As a result, subrecipients that only receive federal funding under this program would not be tracked and monitored by the State to determine whether or not the subrecipient needed to have an A-133 audit. For 4 of 25 subrecipients selected for testwork, there were no expenditures in the VISION grant tracking module and, as a result, the Agency and State could not determine if the subrecipients needed an A-133 audit. For the remaining 21 subrecipients selected for testwork, the subrecipient had received funding from the State under other federal programs and were included in the VISION grant tracking module by the Agency or another Agency or Department of the State.

Cause

The cause of the condition found is the Agency does not consider the funding expended under the Child Nutrition Cluster to School Food Authorities to be subrecipient grants and therefore does not track the funding in the VISION grant tracking module. The Agency does not consider these awards to be subrecipient grants because the funding is paid on a reimbursement basis once the School Food Authority submits a claim for reimbursement, whereas other subrecipient grants contain a predetermined amount to be funded as outlined in a formal grant agreement signed by the Agency and the subrecipient.

Effect

The effect of the condition found is that the Agency may not be obtaining and reviewing subrecipient A-133 audit reports as required if that subrecipient only receives funding under the Child Nutrition Cluster.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Agency track subrecipient grant expenditures under the Child Nutrition Cluster within the VISION grant tracking module similar to other programs administered by the Agency to ensure all A-133 audit reports are obtained and reviewed as required.

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Year ended June 30, 2014

Management's Response and Corrective Action Plan

We will ensure that the SFY2015 grants are entered into the Grant Tracking module

Scheduled Completion Date of Corrective Action Plan

6/30/2015

Contact for Corrective Action Plan

Kathy Flanagan, Financial Director, (802) 479-1766.

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Schedule of Findings and Questioned Costs
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Finding 2014-006

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster:

National School Lunch Program (CFDA #10.555)
Summer Food Service Program for Children (CFDA #10.559)

Program Award Number and Year

2011IN350330	7/1/10–9/30/11
2011IN351030	7/1/10–9/30/11
20128L260344	7/1/11–9/30/12
2013IN160344	7/1/12–9/30/12
2013IN105044	7/1/12–9/30/13
2013IN109044	7/1/12–9/30/13
2013IN109744	7/1/12–9/30/13
2013IN202044	7/1/12–9/30/13
2013IN253322	7/1/12–9/30/13
2013IN254544	7/1/12–9/30/13
2014CL160344	7/1/12–9/30/14
2014CN109044	7/1/12–9/30/14
2014CN109844	7/1/12–9/30/14
2014CN202044	7/1/12–9/30/14
2014CN253344	7/1/12–9/30/14

Criteria

Administering agencies may disburse program funds only to those organizations that meet specified eligibility requirements. Under the National School Lunch Program (NSLP), School Breakfast Program (SBP) and Special Milk Program (SMP), this means the definition of a “School Food Authority” (SFA) as described at 7 CFR sections 210.2, 215.2, and 220.2, respectively. Eligible Summer Food Service Program for Children (SFSPC) organizations are described at 7 CFR section 225.2 under the definition of a “sponsor.” Additional organizational eligibility requirements apply to the SFSPC, NSLP Afterschool Snacks, and the SBP at the school or site level.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Condition Found

During our testwork over the process to review program applications utilized by the Vermont Agency of Education (the Agency) to determine eligibility for School Food Authorities (SFA or subrecipients) we noted the following:

- A. For 30 of 40 subrecipients selected for testwork, the program application was modified by an Agency employee and there was no documentation to support that the subrecipient had approved the modifications made by the Agency.
- B. For 2 of 40 subrecipients selected for testwork, the Agency did not collect all of the forms required to be submitted on the program application from the subrecipient. It was unclear as to why the forms were missing or whether the Agency had followed up on the missing information.
- C. For 7 of 40 subrecipients selected for testwork, the SFA had not completed all the elements of the program application. It was unclear as to why the information had not been completed or whether the Agency followed up on the missing information.
- D. For 5 of 40 subrecipients selected for testwork, the SFA had completed information related to a program for which the program application did not indicate they were participating in. Based on discussions with the Agency, if the SFA does not indicate that they are participating in a specific program on the top of the program application, they will not be able to submit claims under that program. It was unclear as to whether the Agency followed up on the inconsistent information contained within the program application.
- E. For 17 of 40 subrecipients selected for testwork, the SFA had completed information indicating they were a Residential Child Care Institution (RCCI), however on the top of the program application indicated they were a public/private school. It was unclear if the Agency followed up on the inconsistencies.

A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-006.

Cause

The cause of the condition found is primarily due to the lack of written procedures for reviewing program applications to ensure that they are complete and accurate prior to approving the subrecipient's eligibility to participate in the program.

Effect

The effect of the condition found is the Agency may not perform the required follow up actions and obtain all pertinent information from the subrecipient as part of the application process. As a result, the Agency may enter into agreements with subrecipients that do not meet all eligibility requirements to participate in the program.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

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Questioned Costs

None.

Recommendation

We recommend the Agency develop written procedures for reviewing program applications to ensure all applications are complete and accurate as well as consistently reviewed by the Agency in order to verify that all eligibility requirements have been met to participate in the federal program.

Management's Response and Corrective Action Plan

The lack of sufficient staff during the renewal approval period affected the number of errors found in the 13-14 Program Renewals. The new Application and Claiming system that will be developed and implemented early in the 2016 Fiscal Year will have a comment box so that staff may indicate the reason for modifying and re-approving applications. Modifications are currently made for minor corrections to correct addresses, e-mail addresses and the like; major changes that impact the program or its reimbursement factors must be made by an SFA representative and submitted by the SFA before a consultant in the State Agency approves it.

A manual will be written for the State Agency staff to use when reviewing and approving program Agreements and Applications. A manual will also be written for SFA users to provide them directions and guidance when completing the on line forms and claims.

Scheduled Completion Date of Corrective Action Plan

January 1, 2016

Contact for Corrective Action Plan

Laurie Colgan, Education Consultant, (802) 479-1187

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Schedule of Findings and Questioned Costs
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Finding 2014-007

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster:

National School Lunch Program (CFDA #10.555)
Summer Food Service Program for Children (CFDA #10.559)

Program Award Number and Year

011IN350330	7/1/10–9/30/11
2011IN351030	7/1/10–9/30/11
20128L260344	7/1/11–9/30/12
2013IN160344	7/1/12–9/30/12
2013IN105044	7/1/12–9/30/13
2013IN109044	7/1/12–9/30/13
2013IN109744	7/1/12–9/30/13
2013IN202044	7/1/12–9/30/13
2013IN253322	7/1/12–9/30/13
2013IN254544	7/1/12–9/30/13
2014CL160344	7/1/13–9/30/14
2014CN109044	7/1/13–9/30/14
2014CN109844	7/1/13–9/30/14
2014CN202044	7/1/13–9/30/14
2014CN253344	7/1/13–9/30/14

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Criteria

State agencies administering the programs included in the Child Nutrition Cluster are required to perform specific monitoring procedures in accordance with 7 CFR sections 210.18 and 210.19(a)(4) (School Breakfast Program (SBP) and National School Lunch Program (NSLP), 7 CFR section 215.11 Special Milk Program (SMP), and 7 CFR section 225.7 Summer Food Service Program for Children (SFSPC). State agencies administering the NSLP and SBP are required to make the following specific types of on-site reviews:

- a. Administrative Reviews – An administrative review is the initial comprehensive on-site evaluation of a SFA operating the NSLP/SBP. Every School Food Authority (SFA) must receive an administrative review during each review cycle.
- b. Follow-Up Reviews – A follow-up review is an on-site inspection of a SFA, subsequent to an administrative review, to ensure that the SFA has corrected deficiencies disclosed by the administrative review.

Condition Found

During our testwork over subrecipient monitoring, we noted the following regarding the Vermont Agency of Education's (the Agency) program monitoring visits:

- A. For 1 of 15 monitoring reviews selected for testwork, the review was performed in January 2014. The Agency wrote their letter of findings on April 11, 2014 however the letter was not sent to the SFA.
- B. For 8 of 15 monitoring reviews selected for testwork, the review monitoring questionnaire was incomplete. As a result, we were unable to conclude that the required procedures had been performed as part of the monitoring review process.
- C. For 3 of 15 monitoring reviews selected for testwork, there were findings noted on the review monitoring questionnaire that were not addressed in the Agency's letter of findings to the SFA. As a result, we were unable to conclude that the findings were resolved or if the Agency had performed the required follow up procedures so ensure that the matters were addressed.
- D. For 14 of 15 monitoring reviews selected for testwork, the Agency issued their letter of findings later than the required 30 day timeframe as required by federal regulations.
- E. For 3 of 15 monitoring reviews selected for testwork, the SFA did not send their response letter back to the Agency within the required 30 day timeframe as required by federal regulations.

A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-008.

Cause

The cause of the condition found is primarily due to insufficient review procedures to ensure that the all review monitoring questionnaires are complete and that all findings identified as part of the review process are communicated to the SFA. If communication is not required, there is no documentation maintained to support why the finding will not be included in the Agency's letter of findings.

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Effect

The effect of the condition found is that instances of noncompliance or areas requiring improvement identified by the Agency through its programmatic monitoring visits may not be communicated timely to the SFA and, as a result, the Agency cannot follow up on its recommendations in a timely manner.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Agency review its existing programmatic monitoring procedures and develop controls to ensure that all procedures are performed timely and are properly documented. The written procedures should ensure that all required documentation is compiled and maintained to support each monitoring visit and whether or not matters identified during the review require corrective action. A supervisory review should be conducted to ensure each file is complete prior to closure.

Management's Response and Corrective Action Plan

This was the first year of implementation of the more robust, challenging and complicated federal Administrative Review Process. Vermont, as well as other State Agencies around the country, was challenged with the learning and implementation process. We began the year short of staff and then had to bring a new staff member up to speed very quickly as we were conducting the reviews.

Since last year, the State Agency has implemented a process for a second party review of Administrative Review materials. The forms are on different colors to better manage the files. In addition we have created a log to manage reviewers, corrective action due dates and closure dates. To ensure we have all documents and to distinguish their location – hard copy in the file or electronic – we have developed a checklist for each review folder. We have a staff member that is over-seeing the review process, Administrative Review Coordinator, and another staff member who is working to manage the review work timelines. This last staff member is currently under treatment for a severe condition but we anticipate her full recovery and she will be back in the office full time to interact with staff and work on the review materials.

In addition to having an Administrative Review Coordinator and the assistant following up on review forms, timelines, and the like, the program director is now reviewing files, forms and reports prior to the closure of the Administrative Review Process for the SFA. With additional staff, we anticipate the 2014-2015 review schedule and closure of reviews to be more in alignment with program criteria.

Scheduled Completion Date of Corrective Action Plan

June 1, 2015

Contact for Corrective Action Plan

Laurie Colgan, Education Consultant, (802) 479-1187

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Schedule of Findings and Questioned Costs
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Finding 2014-008

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster:

National School Lunch Program (CFDA #10.555)
Summer Food Service Program for Children (CFDA #10.559)

Program Award Number and Year

2011IN350330	7/1/10–9/30/11
2011IN351030	7/1/10–9/30/11
20128L260344	7/1/11–9/30/12
2013IN160344	7/1/11–9/30/12
2013IN105044	7/1/12–9/30/13
2013IN109044	7/1/12–9/30/13
2013IN109744	7/1/12–9/30/13
2013IN202044	7/1/12–9/30/13
2013IN253322	7/1/12–9/30/13
2013IN254544	7/1/12–9/30/13
2014CL160344	7/1/13–9/30/14
2014CN109044	7/1/13–9/30/14
2014CN109844	7/1/13–9/30/14
2014CN202044	7/1/13–9/30/14
2014CN253344	7/1/13–9/30/14

Criteria

A pass through entity is responsible for determining whether an applicant for a subaward has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before award.

Condition Found

During our testwork over DUNS reporting, we were unable to verify that the Vermont Agency of Education (the Agency) had obtained a DUNS number for 4 of 25 subrecipients selected for testwork.

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Cause

The cause of the condition found is primarily due to insufficient review controls to ensure that DUNS numbers have been submitted by all subrecipients as part of the grant award process.

Effect

The effect of the condition found is that the Agency did not verify that all subrecipients had a DUNS number.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend the Agency review its existing procedures and implement controls to ensure that the Agency has obtained a DUNS number for all subrecipients and that documentation of the DUNS number is maintained.

Management's Response and Corrective Action Plan

A new program application has been developed and will be sent to all SFAs requesting their DUNS numbers. The Program application will also collect DUNS numbers for any new applicants.

Scheduled Completion Date of Corrective Action Plan

June 1, 2015

Contact for Corrective Action Plan

Laurie Colgan, Education Consultant, (802) 479-1187

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Finding 2014-009

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster:

National School Lunch Program (CFDA #10.555)
Summer Food Service Program for Children (CFDA #10.559)

Program Award Number and Year

2011IN350330	7/1/10–9/30/11
2011IN351030	7/1/10–9/30/11
20128L260344	7/1/11–9/30/12
2013IN160344	7/1/11–9/30/12
2013IN105044	7/1/12–9/30/13
2013IN109044	7/1/12–9/30/13
2013IN109744	7/1/12–9/30/13
2013IN202044	7/1/12–9/30/13
2013IN253322	7/1/12–9/30/13
2013IN254544	7/1/12–9/30/13
2014CL160344	7/1/13–9/30/14
2014CN109044	7/1/13–9/30/14
2014CN109844	7/1/13–9/30/14
2014CN202044	7/1/13–9/30/14
2014CN253344	7/1/13–9/30/14

Criteria

The state is required to contribute state-appropriated funds amounting to at least 30% of the funds it received under Section 4 of the National School Lunch Act (NSLA) in the school year beginning July 1, 1980, unless otherwise exempted by 7 CFR section 210.17.

Condition Found

On an annual basis, the Vermont Agency of Education (the Agency) makes a payment of state funds to each School Food Authority (SFA) that is considered to be the State's share of matching funds. The amount paid to each SFA is based on that SFA's percentage of claims incurred relative to the entire program. For example, if SFA XYZ accounts for 10% of all claims paid under the program, then the Agency will pay 10% of its

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required match to SFA XYZ. No documentation is obtained from the SFA to ensure that it has used the matching funds received for allowable purposes.

Cause

The cause of the condition found is that the Agency does not request documentation from its subrecipients or perform other procedures to ensure that funds paid to subrecipients are used for allowable purposes related to the Child Nutrition Cluster.

Effect

The effect of the condition found is that the Agency may not have sufficient expenditures to meet its annual matching requirement.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend the Agency review its existing procedures to ensure that there are adequate controls and procedures in place to ensure funds paid to subrecipients for matching purposes are used for allowable purposes under the Child Nutrition Cluster.

Management's Response and Corrective Action Plan

Schools receive the State Matching funds in the same manner as the other meal reimbursement funds. SFAs and Schools treat these funds the same as the other reimbursement funds and deposit them in the nonprofit food service accounts. Given the increased costs in the school food service program these funds are used to cover food service expenses and likely not used for any nonprogram expenses. State match payments are reported like all other school food service account funds in their annual financial report as nonprofit food service account revenues.

The Administrative Review process does look at the nonprofit food service accounts to ensure that there are no irregularities and that if there was any profit, or revenues exceeded expenses, the reviewer determines the status of the funds. Any removal of the funds from the nonprofit food service account would be a finding in the Administrative Review and the funds would have to be returned to the food service account prior to closure of the review.

Scheduled Completion Date of Corrective Action Plan

January 30, 2015 – Staff review State Match funds during administrative reviews and end of year Fiscal reports.

Contact for Corrective Action Plan

Laurie Colgan, Education Consultant, (802) 479-1187

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Finding 2014-010

U.S. Department of Defense

Program Name and CFDA Number

National Guard Military Operations and Maintenance (O&M) Projects (CFDA #12.401)

Program Award Number and Year

W912LN-10-2-1021 Federal Fiscal Year 2014

Air National Guard – Appendix 21 Facilities Operation and Maintenance Activities (FOMA)

Criteria

States are required to use the same state policies and procedures used for procurements for nonfederal funds. As such this program is subject to the State of Vermont Agency of Administration Bulletin No. 3.5 for contracting procedures. According to 3 V.S.A. § 311(a)(10), the State Attorney General must give prior written approval to any contract for services valued at \$15,000 and greater per year to determine if it is consistent with the intent of the classified service system.

Condition Found

During our testwork over the procurement process, we noted that 1 of 40 contracts selected for testwork was not approved by the Attorney General as required by Administrative Bulletin 3.5.

A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-009.

Cause

The cause of the condition found is related to a misunderstanding of the requirements of Administrative Bulletin 3.5 concerning the dollar value associated with contracts requiring the approval of the Attorney General.

Effect

The effect of the condition found is that the Vermont Department of Military (the Department) entered into contracts that did not comply with the provisions of Administrative Bulletin 3.5.

The condition found does not appear to be systemic but is considered to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its existing procedures and internal controls to ensure that all required approvals are obtained prior to executing a contract as outlined under Administrative Bulletin 3.5.

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Management Response and Corrective Action Plan

The Military Department has adopted a standardized process for all contracting actions within the department which includes a checklist that is used by the individual initiating the contract and a review of all contracts and supporting documentation by the department's contracts subject matter expert (SME) prior to final approval and routing.

Scheduled Completion Date of Corrective Action Plan

Completed June 30, 2014

Contact for Corrective Action Plan

Kenneth W. Gragg, Jr., Financial Manager, (802) 338-3110
Suzette Bourdeau, Subject Matter Expert, Suzette.bourdeau@state.vt.us

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Finding 2014-011

U.S. Department of Housing and Urban Development

Program Name and CFDA Number

Community Development Block Grant Cluster:

Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
(CFDA #14.228)

Program Award Number and Year

B-13-DC-50-0001 07/01/2013–06/30/2014

B-12-DT-50-0001 04/03/2011–09/30/2017

B-11-DN-50-0001 03/03/2011–03/03/2014

Criteria

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS) and report subaward data through FSRS. Subawards are to be reported no later than the last day of the month following the month in which the subaward/subaward amendment obligation was made or the subcontract award/subcontract modification was made.

Condition Found

During our testwork over FFATA reporting at the Agency of Commerce and Community Development (the Agency), we noted the following:

- A. For 2 of 8 subrecipients selected for testwork, we were unable to verify that the grants/amendments were reported within FSRS as required.
- B. For 4 of 8 subrecipients selected for testwork, we noted the grants/amendments were not reported within FSRS timely.

Cause

The cause of the condition found is primarily due to the Agency receiving a significant increase in federal funding over the past several years. As a result of the increase in federal funding, the number of subrecipients has grown while the number of employees has remained the same, causing insufficient staffing to perform the required duties. The Agency has added limited service positions to assist with the administration of the new federal disaster recovery funding; however there has been no increase in staff or capacity for audit reviews and financial management.

Effect

The effect of the condition found is that subawards were not reported as required or were reported late.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2014

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend the Agency review its existing procedures for reporting under the Federal Funding Accountability and Transparency Act and implement controls to ensure they are capturing and reporting subawards on a timely basis as required.

Management's Response and Corrective Action Plan

- A. The FFATA system is User and Password controlled. When a staff person left, we lost access to the 2010 Funding year in the Federal Subaward Reporting System (FSRS). We have attempted to work with the Helpdesk, and various other sources to no avail.

In response to the lock-out situation with the FSRS, we had DII establish an e-mail address specific to FFATA that is associated with the Grants Management staff in general, of which there will be a singular password tied to the e-mail address as the User in the System. This e-mail address will be available to any Grants Management staff, and will not be limited to a specific staff person that may no longer be available.

- B. Due to lack of staffing capacity, the Agency was not timely in the data input into the FSRS in all cases. We have established a process that once a Grant Agreement has been executed, the Grants Management staff member will input the appropriate data as timely as possible into all the Systems: the VISION System, the FSRS for the FFATA, and the HUD Integrated and Disbursement and Information System.

Scheduled Completion Date of Corrective Action Plan

- A. The distinct ACCD-FFATA e-mail was established by DII as of January 8, 2015.
- B. The process was put in place as of January 2014.

Contact for Corrective Action Plan

Ann Karlene Kroll, Director of Grants Management (802) 828-5225

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Finding 2014-012

U.S. Department of Housing and Urban Development

Program Name and CFDA Number

Community Development Block Grant Cluster:

Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
(CFDA #14.228)

Program Award Number and Year

B-13-DC-50-0001 07/01/2013–06/30/2014

B-12-DT-50-0001 04/03/2011–09/30/2017

B-11-DN-50-0001 03/03/2011–03/03/2014

Criteria

A primary pass-through entity is required to perform during the award monitoring over the subrecipients use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

A primary pass-through entity is required to (1) ensure that subrecipient's expending \$500,000 or more in federal awards during the subrecipients fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's fiscal year-end; (2) issue a management decision on audit findings within 6 months after receipt of the subrecipients audit report; and (3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

A primary pass-through entity is required to determine whether an applicant for a subaward has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before award (2 CFR section 25.110 and Appendix A to 2 CFR part 25).

Condition Found

During our testwork over the Agency of Commerce and Community Development's (the Agency) subrecipient monitoring process, we noted the following:

- A. The Agency monitors subrecipients on an annual basis by performing an on-site monitoring visit. For 1 of 8 subrecipients selected for testwork, the Agency was unable to provide documentation, with the exception of an exit letter, to support that a monitoring visit was performed as required by the Agency's policies and procedures.
- B. For 3 of 8 subrecipients selected for testwork, we noted that progress reports were submitted by the subrecipients, however, the Agency appeared to have approved each of the subrecipient's final

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Year ended June 30, 2014

program reports prior to approving each of the progress reports. Based on discussions with Agency staff, both the progress report and final program report should be approved.

- C. The State of Vermont (the State) utilizes a grant tracking module within the VISION system (the State's centralized accounting system) that helps track subrecipient grants that are entered into by the State, such as the subrecipient name, the grant period and the amount of funds granted. This information is used annually to solicit information from the State's subrecipients concerning their total federal funds expended during the year and whether or not the subrecipient is required to have an A-133 audit. If an A-133 audit is required, the State will designate a primary pass-through entity within the State to obtain and review the results of the subrecipient's A-133 audit. The result of this review is documented within the VISION grant tracking module by the designated primary pass-through entity.

The Agency has an established policy whereby an audit review checklist is completed for each A-133 audit report over which the Agency is designated as the primary pass-through entity by the Department of Finance and Management. For 1 of 6 subrecipients in which the Agency was the designated primary pass-through entity, we noted the Agency was unable to provide the audit review checklist used to review the A-133 audit report. As a result, we were unable to verify the A-133 audit report was reviewed by the Agency.

- D. For 1 of 6 subrecipients in which the Agency was the designated primary pass-through entity, the A-133 audit report had not been received by the Agency and the Agency did not follow up on the delinquent A-133 audit report until six months past the audit receipt deadline and subsequent to our request for additional support.
- E. For 1 of 6 subrecipients in which the Agency was the designated primary pass-through entity, we noted an A-133 audit was required for the subrecipient for fiscal year 2013. As of November 19, 2014 the Agency had not obtained the A-133 audit report and there was no documentation to support that the Agency had follow up to obtain the delinquent A-133 audit report.
- F. For 1 of 6 subrecipients in which the Agency was the designated primary pass-through entity, we noted that Agency reviewed the A-133 audit report and completed an audit review checklist. The information documented within the audit review checklist concerning the audit results however did not agree to the actual audit results contained in the A-133 audit report itself. As such, the review of the A-133 audit report did not appear to be sufficient or accurate.
- G. For 1 of 6 subrecipients in which the Agency was the designated primary pass-through entity, we noted the A-133 audit report was not reviewed by the Agency until November 13, 2014 (past the 6 month management decision deadline). At that time of the review the Agency determined they should not be the primary pass-through entity for the subrecipient and communicated this to the State of Vermont Department of Finance and Management to update the VISION grant tracking module.
- H. For 1 of 8 subrecipients selected for testwork, we noted an incorrect DUNS number was included on the subrecipient's grant agreement.

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- I For 1 of 8 subrecipients selected for testwork, we noted that the Vermont Agency of Transportation was the designated primary pass-through entity for this subrecipient. We were unable to obtain evidence to support that the Agency had reviewed either the VISION grant tracking module or requested a copy of the subrecipient's A-133 audit report to determine whether or not there were audit findings identified related to the Community Development Block Grant program.

A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-010.

Cause

The cause of the condition found is primarily due to the Agency receiving a significant increase in federal funding over the past several years. As a result of the increase in federal funding, the number of subrecipients has grown while the number of employees has remained the same, causing insufficient staffing to perform the required duties. The Agency has added limited service positions to assist; however, there has been no increase in staff or capacity for audit reviews and financial management. Further, it appears new staff within the Agency are not yet fully trained to perform all their job duties.

Effect

The effect of the condition found is that the Agency may be unaware of material noncompliance or internal control deficiencies reported within a subrecipient's annual A-133 audit report. As a result, the Agency is not able to follow up timely to seek corrective action from its subrecipients as necessary either through the review of annual A-133 audit reports or on-site monitoring visits.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Agency review its existing procedures to ensure it obtains and reviews all of its subrecipient's annual A-133 audit reports. Once an A-133 audit report is obtained, the Agency should review each report to determine whether or not there are any material compliance findings or internal control deficiencies related to programs funded by the Agency and seek corrective actions from the subrecipient as necessary. In addition, all documentation related to on-site visits should be maintained and readily available for review as required by the Agency's policies and procedures. Finally, the Agency should ensure all of its monitoring efforts are completed timely.

Management's Response and Corrective Action Plan

- A. After turnover in a key staff position, we were unable to locate the work papers for the Monitoring Visit of Two Rivers Ottauquechee Regional Commission (TRORC) for the Disaster Recovery buy-out program. We have taken several actions to strengthen our monitoring processes so that documentation is maintained in a consistent manner. We have updated our policies and procedures to ensure that all monitoring reviews result in monitoring letters, reports and responses if necessary. We have also revised our monitoring work flow in Intelligrants, which is the primary system we use to track our

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Schedule of Findings and Questioned Costs

Year ended June 30, 2014

monitoring activities. We have added status changes with built in time limits for follow-up, response, and corrective actions.

- B. The CD Director is working with the CD Specialists to prioritize their work to better ensure timely review and clearance of Progress Reports. The Grants Management staff are making our best efforts to work through the backlog of the Final Program reports to review and issuance clearances, despite remaining understaffed. Significant progress has been made in both areas.
- C. In following the Issue Brief by Finance and Management, whereby if there were no findings in an audit report a Management Letter is recommended but not required, and we did not issue a letter. Unfortunately, we failed to file the Audit checklist with the audit report and have not been able to locate the checklist. In response, we have revised the Audit review module in Intelligrants to ensure the checklist is completed and Management clearance letters will be issued for each of the subrecipient required audit reports.
- D. As noted by the auditor, the Grants Management Division was stretched too thin by managing a major disaster recovery grant and training new staff. Disaster Recovery work was made a priority. DHCD was forced to make a management decision to make reviewing audits a lesser priority during that period. As a result we were not timely in pursuing the Audit report for the Town of Guilford. In addition, there was a change in personnel at the Town who was unaware the report had been already submitted to the Federal Clearing House.
- E. For the reasons outlined in Item D., we were not timely in pursuing the Audit report for the subrecipient, Vermont Housing and Conservation Board (VHCB). The FY13 Audit report has been received as of November 19, 2014 and reviewed and cleared with no Findings.
- F. Grants Management staff that reviewed the City of Winooski FY13 Single Audit report made an error by circling the item on the checklist that indicated a disclaimer opinion that should have been notated unqualified opinion due to a misunderstanding of the statements. As there has been dramatic changes in the language in the A-133 Single Audits, we will be seeking in-depth audit review training over the coming months for the Grants Management staff. We have already reached out to our counterparts in other State Agencies and other State CDBG Programs for guidance materials and training opportunities.
- G. Again, as explained in D., the Grants Management section handling the audit reviews was unable to remain timely and failed to pursue the Audit report for the subrecipient, City of Barre. Working to stay current with the review and clearance of Subrecipient Audit Reports is an ongoing effort and we are instituting a process to regularly review the information contained in the VISION Grant Tracking module in order to facilitate timely review.
- H. The incorrect DUNS# contained in the Grant Agreement between the Agency and the Vermont Housing and Conservation Board (VHCB) was merely an oversight. We will take measures immediately to ensure better quality control of the grant agreements and documents being issued by the Agency
- I. The Agency was not the assigned Primary for the Town of Hartford FY13 Single Audit report, and as the Grants Management section handling the audit reviews remains understaffed and first focused on

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reports for which we are primary, we were not timely in pursuing and securing a copy of the Audit report from the Agency of Transportation, nor the subrecipient. Working to stay current with the review and clearance of Subrecipient Audit Reports is an ongoing effort and we are instituting a process to regularly review the information contained in the VISION Grant Tracking module in order to facilitate timely review.

Scheduled Completion Date of Corrective Action Plan

- A. Completed as of November 2014
- B. Ongoing
- C. Completed as of December 2014
- D. Completed. Audit report received and reviewed on January 21, 2015. The subrecipient's single audit report had been submitted timely to the clearinghouse on September 18, 2014.
- E. Completed. The FY13 Audit report was received on November 19, 2014 and reviewed and cleared with no findings.
- F. Ongoing
- G. Ongoing
- H. New procedures implemented February 2015
- I. Ongoing

Contact for Corrective Action Plan

Ann Karlene Kroll, Director of Grants Management (802) 828-5225

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Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Finding 2014-013

U.S. Department of Housing and Urban Development

Program Name and CFDA Number

Community Development Block Grant Cluster:

Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (CFDA #14.228)

Program Award Number and Year

B-13-DC-50-0001 07/01/2013–06/30/2014

B-12-DT-50-0001 04/03/2011–09/30/2017

B-11-DN-50-0001 03/03/2011–03/03/2014

Criteria

As described in §310(b)(3) of OMB Circular A-133, auditees must complete the Schedule of Expenditures of Federal Awards (SEFA) and include CFDA numbers provided in federal awards/subawards and associated expenditures.

Condition Found

During our testwork over the SEFA, we noted the original SEFA prepared by the Vermont Agency of Commerce and Community Development (the Agency) incorrectly included nonfederal expenditures. The error was subsequently corrected by the Agency after our inquiry.

Cause

The cause of the condition found is primarily due to a miscommunication on how to handle the reporting of program income. Prior to the current year, program income related expenditures had been excluded as an expenditure on quarterly financial status reports submitted by the Agency. During the current year this process changed and led to the inaccurate preparation of the SEFA.

Effect

The effect of the condition found is that the Agency initially did not accurately prepare the current year SEFA.

The condition found does not appear to be systemic but is considered to be a significant deficiency in internal controls.

Questioned Costs

None.

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Year ended June 30, 2014

Recommendation

We recommend the Agency review its existing procedures for preparing the SEFA to ensure the Agency has properly capturing and reporting expenditures based on the type of money expended.

Management's Response and Corrective Action Plan

This was a one-time occurrence due to a misunderstanding of how HUD wanted Program Income tracked when expended as an award to a new Grantee. The SEFA was corrected immediately in November 2014 in collaboration with Finance and Management.

Scheduled Completion Date of Corrective Action Plan

Completed.

Contact for Corrective Action Plan

Ann Karlene Kroll, Director of Grants Management (802) 828-5225

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Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Finding 2014-014

U.S. Department of Labor

Program Name and CFDA Number

Unemployment Insurance (CFDA #17.225)

Program Award Number and Award Year

UI-25236-14-55-A-50 10/1/13–12/31/16

UI-23924-13-55-A-50 10/1/12–12/31/15

UI-22346-12-55-A-50 10/1/11–12/31/14

UI-21132-11-55-A-50 10/1/10–12/31/13

Criteria

Eligibility

Grantees are required to provide reasonable assurance that only eligible individuals receive assistance under Federal award programs, and that amounts provided to or on behalf of eligible individuals were calculated in accordance with program requirements.

Employer Experience Rating

Certain benefits accrue to states and employers when the State has a federally approved experience-rated Unemployment Insurance (UI) tax system. All States currently have an approved system. For the purpose of proper administration of the system, the State Workforce Agency (SWA) maintains accounts, or subsidiary ledgers, on state UI taxes received or due from individual employers, and the Unemployment Compensation (UC) benefits charged to the employer.

The employer's "experience" with the unemployment of former employees is the dominant factor in the SWA computation of the employer's annual state UI tax rate. The computation of the employer's annual tax rate is based on state UI law (26 USC 3303).

Condition Found

The Department of Labor (the Department) utilizes 2 primary computer systems, VABS and CATS, to process activity related to the program.

- VABS (Voice Activated Benefit System) is the Department's benefit management system responsible for determining claimant eligibility and processing benefit payments for unemployment insurance compensation.
- CATS (Contribution Tax System) is the Department's employer tax system responsible for tracking employer information including gross wages reported, taxes paid, taxes due, and the employer experience rating. The system interfaces with VABS to import claim payment charges against the related employers and using this information from VABS and the quarterly gross wages data, the employer experience rating is automatically calculated.

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During the year ending June 30, 2012, a test of design related to the IT general control environment of the VABS and CATS systems was performed. As part of this review, a number of control deficiencies were identified related to access to programs and data, change management, and computer operations. As a result of the control deficiencies, a test of operating effectiveness of IT general controls or application controls specific to the Unemployment Insurance program could not be performed. During the period ending June 30, 2014, several inquiries were made with the Department and it was noted that the control deficiencies identified during the review for the year ending June 30, 2012 had not been corrected. As a result, we are unable to test the application controls specific to the Unemployment Insurance program contained within the VABS and CATS systems and we are unable to conclude that there are adequate controls in place surrounding these IT systems utilized for the eligibility and employer experience rating processes and we were unable to rely on the IT controls due to these control deficiencies.

Cause

The cause of the condition as noted above is that the Department has not taken action, and does not consider it a priority within their current resources, to correct the general IT control deficiencies that were identified in the June 30, 2012 audit.

Effect

The effect of the condition found is that errors in the eligibility and employer tax experience processes may not be identified by the Department and could result in claimants improperly being determined as eligible, inaccurate benefit amounts being paid or an employer's experience rate being inaccurately calculated.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review the internal control deficiencies related to the VABS and CATS systems identified during the period ending June 30, 2012 and take appropriate actions to ensure that all deficiencies related to access to programs and data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the systems.

Management's Response and Corrective Action Plan

VDOL has reviewed its internal control deficiencies as brought up in the June 30, 2012 year end review. Per the recommendation of that review VDOL has written and adopted Policy 21 "Security Policies for the Labor Enterprise Computing (LEC) System" and Policy 22 "Policy for Change and Configuration Management". These policies address all deficiencies as presented in the June 30, 2012 year end review.

Scheduled Completion Date of Corrective Action Plan

The policies were issued February 25, 2015 and they will be fully implemented by March 31, 2015

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Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Contact for Corrective Action Plan

Director of Administrative Services, Thomas Tomasi 802-828-4376

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Finding 2014-015

U.S. Department of Labor

Program Name and CFDA Number

WIA Cluster:

WIA Adult Program (CFDA #17.258)

WIA Youth Activities (CFDA #17.259)

WIA Dislocated Worker Formula Grant (CFDA #17.278)

Program Award Number and Award Year

AA-25386-14-55-A-50 4/1/14–6/30/17

AA-24125-13-55-A-50 4/1/13–6/30/16

AA-22968-12-55-A-50 4/1/12–6/30/15

AA-21428-11-55-A-50 4/1/11–6/30/14

Criteria

As required by A-102 Common Rule, nonfederal entities receiving federal awards are required to establish and maintain internal controls in order to provide reasonable assurance that federal awards are expended only for allowable activities and that the costs of goods and services charged to federal awards are allowable and in accordance with the applicable cost principles.

Condition Found

The Vermont Department of Labor (the Department) utilizes the FARS system to process activity related to the program. The FARS system is the Department’s internal financial accounting and reporting system. Costs incurred under this program are processed and paid for within the State of Vermont’s centralized accounting system, VISION. VISION then interfaces with the FARS system to populate the FARS system so that costs can be allocated to individual programs, including the WIA Cluster. Once the costs are allocated, the FARS system is used as the basis of the Department’s federal cash draw requests and federal financial status reports. As part of its internal control structure, the Department relies on information technology (IT) controls embedded within the FARS system and does not perform a supervisory review to ensure that the system is operating effectively.

During the year ending June 30, 2012, a test of design related to the IT general control environment of the FARS system was performed. As part of this review, a number of control deficiencies were identified related to access to programs and data, change management, and computer operations. As a result of the control deficiencies, a test of operating effectiveness of IT general controls or application controls specific to the WIA cluster could not be performed. During the period ending June 30, 2014, several inquiries were made with the Department and it was noted that the control deficiencies identified during the review for the year ending June 30, 2012 had not been corrected. As a result, we are unable to test the application controls specific to the WIA Cluster contained within the FARS system and we are unable to conclude that there are

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Schedule of Findings and Questioned Costs

Year ended June 30, 2014

adequate controls in place surrounding the IT system utilized related to the allocation of costs. As a result, we were unable to rely on IT controls due to these control deficiencies.

Cause

The cause of the condition found is that the Department has not taken action, and does not consider it a priority within their current resources, to correct the general IT control deficiencies that were identified in the June 30, 2012 audit.

Effect

The effect of the condition found is that an error in the allocation process of the Department's costs may not be identified by the Department and could result in unallowable costs being charged to the program, as well as errors made in the amount of federal funds eligible for cash draw or required to be reported on federal financial status reports.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review the internal control deficiencies related to the FARS system identified during the period ending June 30, 2012 and take appropriate actions to ensure that all deficiencies related to access to programs and data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the systems. In addition, the Department should review its procedures to review the allocation process within the FARS system to ensure that costs are being allocated to federal programs correctly and that the expenditures used to support the federal cash draws and federal financial status reports are allowable, complete, and accurate.

Management's Response and Corrective Action Plan

VDOL has reviewed its internal control deficiencies as brought up in the June 30, 2012 year end review. Per the recommendation of that review VDOL has written and adopted Policy 21 "Security Policies for the Labor Enterprise Computing (LEC) System" and Policy 22 "Policy for Change and Configuration Management". These policies address all deficiencies as presented in the June 30, 2012 year end review.

VDOL has reviewed its procedures to review the allocation process within FARS. VDOL has to submit a Cost Allocation Plan annually to the US DOL Office of Cost Allocation. In this yearly application process VDOL reviews its procedures and its allocation process. On top of this the US DOL Office of Cost Allocation also reviews the cost allocation procedures and functions of the FARS system as well as actual transactions to make sure that the system is working correctly and that all federal programs are being charged appropriately

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Scheduled Completion Date of Corrective Action Plan

The policies were issued February 25, 2015 and they will be fully implemented by March 31, 2015

Contact for Corrective Action Plan

Director of Administrative Services, Thomas Tomasi 802-828-4376

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Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Finding 2014-016

U.S. Department of Labor

Program Name and CFDA Number

WIA Cluster:

WIA Adult Program (CFDA #17.258)

WIA Youth Activities (CFDA #17.259)

WIA Dislocated Worker Formula Grant (CFDA #17.278)

Program Award Number and Award Year

AA-25386-14-55-A-50 4/1/14–6/30/17

AA-24125-13-55-A-50 4/1/13–6/30/16

AA-22968-12-55-A-50 4/1/12–6/30/15

AA-21428-11-55-A-50 4/1/11–6/30/14

Criteria

A-102 Common Rule and OMB Circular A-110 (2 CFR par 215) require that nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. This includes establishing controls to provide reasonable assurance that only eligible individuals receive assistance under federal awards and the amounts provided to or on behalf of eligible individuals were calculated and are allowable in accordance with program requirements.

Condition Found

During our testwork over the Vermont Department of Labor’s (the Department) participant expenditures for the WIA Cluster, we noted the following:

- A. For 1 of 40 participant expenditures selected for testwork, the amount paid exceeded the amount authorized on the Vermont Department of Labor Voucher. The expenditure was for a commercial driver training course in the amount of \$4,700. However, the voucher only authorized payment up to \$4,300. The voucher was initialed and dated to indicate that the Department approved the invoice for payment, but did not indicate that the participant would need to repay the difference.
- B. For 1 of 40 participant expenditures selected for testwork, the expenditure was charged to the 2010 award that was closed as of June 30, 2013. The expenditure in the amount of \$150 was for the purchase of business attire and the original voucher and accompanying receipt were signed by the participant on November 23, 2010. The voucher indicated that payment was only valid until December 15, 2010, yet the voucher was initialed by the Department and dated and approved for payment on August 2, 2013.

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Schedule of Findings and Questioned Costs

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Cause

The cause of the condition found is primarily due to insufficient review controls to ensure that participant expenditures are allowable and paid timely.

Effect

The effect of the conditions found is that payments could be made on behalf of eligible participants that are unallowable.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

\$550

Recommendation

We recommend that the Department review its existing allowability review procedures to ensure that sufficient controls are in place to ensure that unallowable costs are not authorized for payment and that all costs incurred are submitted for reimbursement on a timely basis.

Management's Response and Corrective Action Plan

VT DOL has reviewed all existing participant cost allowability review procedures. All participant support payment requests are now verified and double checked against that participants budgeted amount by the Case Manager before being signed and forwarded to central office. Once received by VT DOL central office the support payment requests are reviewed by a Grant Manager for another verification of the allowability and authorized amounts. Once verified the requests are signed and forwarded to fiscal for payment. Any discrepancies are either re-verified or rejected back to the original Case Manager for correction.

The Workforce Development Division has implemented a peer review system for all program and case files where Case Managers will review their peer's files for completeness and accuracy. These peer reviews take place monthly at the regional level and bi-annually at the state wide level.

As a system wide check the Workforce Development Division has implemented a policy where Regional Managers will monthly pull random samples of case files to ensure that all support documentation is included and complete. In this review the Regional Managers are also instructed to verify payment amounts vs authorized amount. Workforce Development Division now also has a formal monitoring review at central office that reviews a random sample of case files. If any of the samples show deficiencies the monitor will pull all files from that particular Case Manager for a complete review.

These reviews are intended to insure that all case files are complete and accurate, that all expenditures are accurate and allowable, and that all payments are captured for both financial reporting and payment in a timely manner.

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Schedule of Findings and Questioned Costs

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Questioned costs total \$550

- A. The questioned cost of \$400 was for a commercial driver training course that exceeded the amount authorized on the initial VDOL voucher. It is not uncommon for tuition invoices to come in that exceed the initially budgeted amount as fees on top of the tuition are often seen as an add on. The VDOL Regional Manager (or designated Supervisor) or Workforce Development Director may authorize the exceeded amount if it is determined that there is a change in fees or additional reasonable charges that have been included and that those additions are appropriate and relevant to the funding stream and to the participant's case management. The additional fees to the tuition in question are directly related to the training of this participant and are relevant and appropriate to the funding stream. Typically, if a voucher arrives at the Fiscal section for payment the Supervisor making the payment will review the authorized amount compared to the invoice amount. If the invoice is greater than the authorized amount the Workforce Development Director will be required to review and approve or reject the expenditures that exceed the authorized amount.

- B. The expenditure in the amount of \$150 authorizing the purchase of "clothing" (deemed Support Services) was authorized under the 2010 National Emergency Grant. This was reviewed by the Regional Manager and the WFD Director and determined to be an appropriate expenditure. The actual purchase of the item was in December of 2010. Upon review of the files of the participant files the noted voucher and corresponding invoice were found and submitted to the Workforce Development Director and the VDOL Fiscal Director. The vendor involved provided the participant with the necessary support service, and the VDOL made payment to the vendor. This charge is relevant and appropriate to the grant.

Scheduled Completion Date of Corrective Action Plan

2/28/2015

Contact for Corrective Action Plan

Rose Lucenti Workforce Development Director, (802) 828-4151
Chad Wawrzyniak Fiscal Director, (802) 828-0281

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Finding 2014-017

U.S. Environmental Protection Agency

Program Name and CFDA Number

Capitalization Grants for Drinking Water State Revolving Funds (CFDA #66.468)

ARRA – Capitalization Grants for Drinking Water State Revolving Funds (CFDA #66.468)

Program Award Number and Year

FS-99121810-0 5/1/12–5/1/19

FS-99121811-0 7/1/11–7/1/18

Criteria

Pursuant to 40 CFR 31.419(b) and 31.50(b), Environmental Protection Agency (EPA) recipients shall submit a final Federal Financial Report (SF-425) to the EPA no later than 90 calendar days after the end of the project period.

A-102 Common Rule and OMB Circular A-110 (2 CFR par 215) require that nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

Condition Found

During our testwork over federal reporting we noted that the Vermont Department of Environmental Conservation (the Department) did not have sufficient procedures in place to ensure the accuracy of the data submitted on the SF-425 federal financial status report. Specifically we noted the following:

- A. The expenditures per the SF-425 federal financial status reports submitted by the Department for the 2010 and 2011 capitalization grant years did not agree to the expenditures reported on the Department’s internal financial status report, or what was reported and drawn within in the federal Automated Standard Application for Payments (ASAP) System. The variances identified were as follows:
 - For the 2010 capitalization grant year, there was a variance of \$333,637 between the SF-425 federal financial status report and the ASAP system and a variance of \$365,917 between the SF-425 federal financial status report and the Department’s internal financial status report.
 - For the 2011 capitalization grant year, there was a variance of \$53,680 between the SF-425 federal financial status report and the ASAP system and a variance of \$28,108 between the SF-425 federal financial status report and the Department’s internal financial status report.
- B. The SF-425 federal financial status reports submitted by Department for the 2010 and 2011 capitalization grants years were marked as a quarterly report, however, the information is reported on an annual basis.

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Cause

The cause of the condition found was primarily due to employee turnover in the Department's Fiscal Office that led to an insufficient supervisory review of the SF-425 federal financial status reports submitted. In addition, it appeared that the Department did not maintain documentation to support the amounts that were reported at the time the SF-425 federal financial status reports were prepared and submitted.

Effect

The effect of the condition found is that the Department may not have submit accurate SF-425 federal financial status reports.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its existing procedures in place to ensure SF-425 federal financial status reports are properly reviewed prior to being submitted. In addition, procedures should be created to ensure that documentation to support the expenditures reported are maintained with a copy of the final report that is submitted to the EPA.

Management's Response and Corrective Action Plan

The errors referred to in this finding occurred as a result of trying to recreate the backup documentation for auditors. Our original SF-425 was correct as filed, but when recreating the backup documentation for auditors, some formulas in our FSR supporting spreadsheet were not working as we had expected because we have converted from a paper filing system to an electronic one and we neglected to take into account the fluid nature of portions of our FSR supporting spreadsheet. We do have solid procedures for preparing the Federal *SF-425 Financial Report* and the original report was correct as filed, however, we did not realize the effect on the preservation of historical data during our electronic filing conversion.

In order to correct this issue going forward, we will be keeping a static copy of the FSR, Vision query and the ASAP reports in a pdf format at the time the Federal *SF-425 Financial Report* is completed in order to ensure the supporting documentation matches the report at that point in time. We also plan to move our FSR system from an excel spreadsheet to a database that can more accurately handle changes in rates and eliminate the formula errors that occur on our current excel spreadsheet. We plan to implement this new database to manage the federal grants over the next six months.

Scheduled Date of Completion of Corrective Action Plan

01/20/2015 – New procedures for electronic files of reports and backup documentation.

07/01/2015 – Conversion from using spreadsheets to a reporting database.

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Contact for Corrective Action Plan

Tracy LaFrance, Financial Director, (802) 490-7074

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Finding 2014-018

U.S. Environmental Protection Agency

Program Name and CFDA Number

Capitalization Grants for Drinking Water State Revolving Funds (CFDA #66.468)

ARRA – Capitalization Grants for Drinking Water State Revolving Funds (CFDA #66.468)

Program Award Number and Year

FS-99121810-0 5/1/12–5/1/19

FS-99121811-0 7/1/11–7/1/18

Criteria

A primary pass-through entity is required to (1) ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipient’s fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient’s fiscal year-end; (2) issue a management decision on audit findings within 6 months after receipt of the subrecipient’s audit report; and (3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

Condition Found

Under the State of Vermont Agency of Administration Bulletin No. 5, Single Audit Policy for subgrants (Bulletin 5), when several state agencies grant funds to the same subrecipient, the State Department of Finance and Management shall assign one pass-through entity as the primary pass-through entity responsible for receiving and reviewing the subrecipient’s annual A-133 audit.

During our testwork over subrecipient monitoring, we noted that the Vermont Department of Environmental Conservation (the Department) does not obtain and review subrecipient A-133 audit reports for those entities in which the Department is not the designated primary pass-through entity. In addition, the Department does not review the result of the designated primary pass-through entity’s review that is documented within the State of Vermont’s VISION grant tracking module. Per review of the VISION grant tracking module, we noted that the Department was not the designated primary pass-through entity for 2 of 15 subrecipients selected for testwork. For these 2 subrecipients we noted the following:

- A. For 1 of 2 subrecipients selected for testwork, the entity that was the designated primary pass-through entity did not review the subrecipient’s A-133 audit report and therefore no results were entered into the VISION grant tracking module. As the Department did not perform its own independent review over the results of the designated primary pass-through entity’s review within the VISION grant tracking module, the lack of review by the designated primary pass-through entity was not detected.

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- B. For 1 of 2 subrecipients selected for testwork, the entity that was the designated primary pass-through entity indicated within the VISION grant tracking module that the subrecipient A-133 audit report contained audit findings. As the Department did not perform its own independent review of this report or review the results of the designated primary pass-through entity's review within the VISION grant tracking module, the Department was unaware that the subrecipient A-133 audit report contained findings and whether or not those findings were related to the federal funds passed through from the Department.

Cause

The cause of the condition found is that the Department does not have procedures in place to review the results of the designated primary pass-through entity's review of subrecipient A-133 audit reports for subrecipients in which the Department is not the selected designated primary pass through entity and it does not perform an independent review of those subrecipient A-133 audit reports. The Department relies on the designated primary pass-through entity to notify them of any findings identified as part of their review of the A-133 audit report.

Effect

The effect of the condition found is that the Department is unaware of material noncompliance or internal control deficiencies reported within these subrecipient annual A-133 audit reports, and as a result, the Department would not be able to follow up timely to seek corrective action from the subrecipient if necessary.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department implement procedures to review the results of the designated primary pass-through entity's review of subrecipient A-133 audit reports for those subrecipients that the Department grants funding to in which the Department is not the designated primary pass-through entity. As part of those procedures, the Department should determine whether or not the subrecipient's A-133 audit report should be obtained and reviewed to determine whether or not the Department needs to follow up on a corrective action plan for areas of noncompliance noted within the A-133 audit report.

Management's Response and Corrective Action Plan

Review of a sub-recipient's A-133 audit report as a secondary pass through entity has not been part of the Standard Operating Procedure administered by the Department of Environmental Conservation (the Department) for monitoring DWSRF sub-recipients. The monitoring of DWSRF sub-recipients is conducted within the Financial Management Section of the Facilities Engineering Division. The reason for this finding is due to an oversight by management supervising the sub-recipient monitoring function and not ensuring current procedures fully comply with the requirements of Bulletin 5 and the subsequent Bulletin 5 Issue Brief. The Department's operating procedure will be updated to incorporate compliant review procedures when the Department is a secondary pass through entity. Additionally, the employee who

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conducts sub-recipient monitoring for the program will have review responsibilities as a secondary pass through entity incorporated into the job performance standard under this duty.

Scheduled Date of Completion of Corrective Action Plan

This procedure became effective on 1/5/2015.

Contact for Corrective Action Plan

Bryan Redmond, Project Development Supervisor, (802) 585-4900

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Finding 2014-019

U.S. Department of Education

Program Name and CFDA Number

Title I Grants to Local Educational Agencies (CFDA #84.010)

Program Award Number and Year

S010A130045 7/1/13–9/30/14

Criteria

A pass through entity is responsible for monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and those performance goals are achieved.

Condition Found

The Vermont Agency of Education (the Agency) enters into grant agreements with Local Educational Agencies (LEA or subrecipient) for the purposes of meeting the objectives of this program. As part of its subrecipient monitoring process, the Agency performs both fiscal and programmatic on-site monitoring reviews. During our testwork over the Agency's subrecipient monitoring process, we noted the following:

Fiscal Monitoring Reviews

- A. For 6 of 15 subrecipients selected for testwork, the Agency did not include all findings noted during the fiscal monitoring review in the findings letter sent to the subrecipient following the visit. As a result, we were unable to determine whether or not the findings were resolved or if the findings needed further corrective action.

Programmatic Monitoring Reviews

- B. For 3 of 15 subrecipients selected for testwork, we noted that the Agency had not performed a programmatic monitoring visit in the last 5 years as required by the Agency's programmatic monitoring policy.
- C. For 1 of 15 subrecipients selected for testwork, the Agency did not review federal comparability requirements as required.

A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-016.

Cause

The cause of the condition found related to fiscal monitoring reviews is primarily due to insufficient procedures to ensure that the Agency documents which findings identified as part of their monitoring review process require follow up with the LEA versus observations or insignificant matters that were noted that do not require further corrective action by the LEA.

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The cause of the condition found related to programmatic monitoring reviews is primarily a result of insufficient resources to ensure that all subrecipients are monitored in compliance with the Agency's internal policy, or if the policy will be deviated from, maintaining documentation to support the rationale behind the modification to the policy.

Effect

The effect of the condition found is that instances of noncompliance with federal regulations applicable to the program at the subrecipient level may not be identified and followed up on timely by the Agency.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Cost

None.

Recommendation

We recommend the Agency review its existing fiscal and programmatic monitoring procedures and develop controls to ensure that all procedures are performed timely and are properly documented. The written procedures should ensure that all required documentation is compiled and maintained to support each monitoring visit. A supervisory review should be conducted to ensure each file is complete prior to closure.

Management's Response and Corrective Action Plan

Program: As a result of audit findings last year, a new program monitoring plan was approved and implemented as of July 1, 2014. The plan can be found on our website at: <http://education.vermont.gov/documents/CFP%20Annual%20Program%20Review%20Process.pdf> and covers program monitoring for Title I, Title IIA, Homeless Education. The documents used in monitoring are also posted on the website at: http://education.vermont.gov/federal_education_programs/consolidated_federal_programs. As of January 2015, we have implemented this plan by scheduled onsite monitoring of Barre Supervisory Union (completed), Windham Southeast Supervisory Union (completed), and Montpelier School District (scheduled). The CFP team is also in the process of doing focus monitoring as follows: Comparability (completed), equitable service to independent schools (Title I and Title IIA (ongoing), and NCLB required Annual Report Cards (ongoing).

Fiscal: We have added wording to each section of our monitoring protocol questionnaire and on each line of our grant specific expenditure review that details the results as "compliant" "finding" or "disallowed costs". This will help highlight findings or disallowed costs in the many pages of notes in each file. Beginning immediately, the Agency of Education monitoring team will meet after each monitoring visit to review the findings and disallowed costs identified by each member of the team, to come to an agreement on the status of our notes, and to make sure findings and disallowed costs are detailed in our monitoring report. In addition, monitoring reports will be reviewed by each team member before they are sent out.

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Scheduled Completion Date of Corrective Action Plan

Program: Done

Fiscal: Done

Contact for Corrective Action Plan

Program: Mary Mulloy, Education Consultant, (802) 479-1226

Fiscal: Cassandra Ryan, School Finance Analyst, (802) 479-8545

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Finding 2014-020

U.S. Department of Education

Program Name and CFDA Number

Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA #84.126)

Program Award Number and Years

H126A130067 7/1/13–9/30/14

H126A130068 7/1/13–9/30/14

Criteria

Services provided under the Vocational Rehabilitation (VR) programs are any services described in an Individualized Plan for Employment (IPE) necessary to assist an individual with a disability in preparing for, securing, retaining, or regaining an employment outcome that is consistent with the strengths, resources, priorities, concerns, abilities, capabilities, interests, and informed choice of the individual. Section 103(a) of the Act (29 USC 723(a)) contains examples of the types of services that can be provided.

Condition Found

The Vermont Department of Disabilities, Aging and Independent Living (the Department) reviews invoices for goods and services authorized within participant’s IPEs prior to payment. During our testwork over the allowability process, we noted that 2 of 40 invoices selected for testwork were not reviewed prior to payment. For 1 of the 2 invoices, we noted that the invoice was paid nearly a year after the Department had incurred the expense. A signed and approved copy of this invoice was provided following our request, however further discussions within the Department revealed that the invoice was signed and approved after it had already been paid.

Cause

The cause of the condition found is primarily due to insufficient controls to ensure that invoices are reviewed prior to payment.

Effect

The effect of the condition found is that participants may be receiving goods and/or services which are either unallowed under the program or not specifically outlined in the participant’s IPE.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

\$574

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Recommendation

We recommend that the Department strengthen its existing policies and procedures over the review and approval of invoices to ensure that costs are allowable in accordance with program rules and are appropriate based on a participant's approved IPE.

Management's Response and Corrective Action Plan

The Department agrees with finding and the recommendation to strengthen existing policies and procedures. The \$574 costs questioned were allowable and approved by a DAIL Counselor, but approval was completed after processing the invoices. This procedural error will be addressed as follows:

The Financial Administrator will be meeting with all of the Program Technicians in the spring of 2015 to review the policy and procedures around bill processing. It is the counselor's responsibility to review and sign off on client expenses, however it is the Program Technician's responsibility to make sure the invoices and receipts are signed off on prior to sending them to the business office for payment.

The Business Office Financial Manager has reminded staff that all invoices must be approved before processing. We will perform two levels of business office review of all invoices to ensure appropriate approval. Audit findings will also be discussed at the February 2015 staff meeting as another reminder.

Scheduled Completion Date of Corrective Action Plan

May 31, 2015

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

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Finding 2014-021

U.S. Department of Education

Program Name and CFDA Number

Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA #84.126)

Program Award Numbers and Year

H126A130067 7/1/13–9/30/14

H126A130068 7/1/13–9/30/14

Criteria

The state Vocational Rehabilitation (VR) agency must determine whether an individual is eligible for VR services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless (Section 102(a)(6) of the Act (29 USC 722(a)(6)):

- a. Exceptional and unforeseen circumstances beyond the control of the state VR agency preclude making an eligibility determination within 60 days and the state agency and the individual agree to a specific extension of time; or
- b. The state VR agency is exploring an individual’s abilities, capabilities, and capacity to perform in work situations through trial work experiences in order to determine the eligibility of the individual or the existence of clear and convincing evidence that the individual is incapable of benefiting in terms of an employment outcome from VR services.

Condition Found

The Vermont Department of Disabilities, Aging and Independent Living (the Department) performs eligibility determinations at district offices located throughout the State of Vermont. During our testwork over the eligibility determination process, we noted that for 4 of 40 eligibility determinations, the eligibility determination was not made within the required 60 day timeframe in accordance with federal regulations noted above and no eligibility extension was prepared to document the reason for the additional time needed to process the determination.

Cause

The cause of the condition found is primarily due to a lack of controls to ensure that eligibility determinations are completed timely or to ensure that causes for delays in the eligibility determination process are properly documented within the participant’s case file.

Effect

The effect of the condition found is that otherwise eligible applicants may not receive services timely.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

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Questioned Costs

None.

Recommendation

We recommend that the Department strengthen its existing policies and procedures over eligibility determinations so that case files are reviewed to ensure that eligibility determinations are made within the 60 day requirement, or that appropriate documentation is completed to support the basis for the extension of time required.

Management's Response and Corrective Action Plan

The Department agrees with the finding and recommendation.

Although these 4 cases were not in compliance with the 60 day certification rule, we do not believe this to be a systemic issue. We reviewed our FFY 2014 cases and determined that 93.3% of the cases were certified within the 60 day time period. We also reviewed FFY 2015 to-date and are 100% compliant with the 60 day time period. This data strongly indicates that DVR is complying with this requirement.

However, in order to prevent this from happening in the future, we will be having an all employee staff meeting to remind counselors that if exceptional or unforeseen circumstances beyond their control preclude making an eligibility determination within the 60 day timeline, they need to identify and document a specific extension of time with the client. Also, VR is currently in the process of purchasing a new case management system that will help prevent this from being a problem in the future. The system is called AWARE and is recognized as the state of the art case management system for public vocational rehabilitation programs. It will have electronic tools to alert counselors to up-coming deadlines and support program compliance.

Scheduled Completion Date of Corrective Action Plan

Meeting with staff to review certification procedures – February 3, 2015

Purchase of new case management system – July 30, 2015 Implementation 12 – 15 months thereafter.

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

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Finding 2014-022

U.S. Department of Education

Program Name and CFDA Number

Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA #84.126)

Program Award Numbers and Year

H126A130067 7/1/13–9/30/14

H126A130068 7/1/13–9/30/14

Criteria

A state agency may not subgrant its federal Vocational Rehabilitation State Grants award made under Title 1, Section 110 of the Rehabilitation Act of 1973, as amended.

A pass-through entity is responsible for (1) determining whether an applicant for a subaward has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before award (2 CFR section 25.110 and Appendix A to 2 CFR part 25; (2) at the time of the subaward, identifying to the subrecipient the federal award information; (3) monitoring the subrecipients use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved and (4) ensuring that subrecipients expending \$500,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133, issuing a management decision on audit findings within 6 months after receipt of the subrecipient's fiscal year-end, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS) and report subaward data through FSRS. Subawards are to be reported no later than the last day of the month following the month in which the subaward/subaward amendment obligation was made or the subcontract award/subcontract modification was made.

Pass-through entities must monitor cash drawdowns by their subrecipients to ensure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.

Condition Found

The Vermont Department of Disabilities, Aging and Independent Living (the Department) has entered into agreements with third party organizations through the use of a procurement grant. The Agency of Human Services (the Agency) has an approved contracting plan with the Vermont Agency of Administration, whereby Departments of the Agency are allowed to enter into a grant in accordance with the State of Vermont subrecipient monitoring policy contained within State of Vermont Bulletin 5.5 (Bulletin 5.5), *Policy for Issuing Grants for State Funds*, for items that may traditionally be entered into using a contract. The

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Department considers a procurement grant to be a contract with a vendor and not a traditional subrecipient grant (or a subaward).

During our testwork over the procurement process, we selected a sample of 8 procurement grants and noted the following:

A. For all 8 procurement grants selected for testwork, the Department entered into grant agreements with third parties for employment support services to be rendered on behalf of the federal program and the Department. Services rendered were to targeted individuals identified primarily by the Department. While the agreements that were entered into were referred to as grant agreements, the Department considered each agreement to be a contract with a vendor under the Agency's approved contracting plan and therefore did not consider each arrangement to be a subrecipient relationship. The Department (or the Agency as a whole) does not maintain documentation to support its vendor determination process and based on the agreements itself, it was unclear as to whether or not the agreement represented a contract with a vendor or a grant with a subrecipient as each agreement contained characteristics of both types of relationships. Some of the inconsistencies we noted included the following items:

- The Department utilizes a standard grant agreement form to enter into each of its procurement grants and refers to the third party as a grantee.
- 1 of 8 procurement grants required the grantee to adhere to federal regulations and the Department had obtained a DUNS number for the vendor as if it were a subrecipient grant.
- 2 of 8 procurement grants indicated within the grant agreement that the Department did not consider the grantees to be subrecipients in accordance with OMB Circular A-133.
- 5 of 8 procurement grants had services bundled with other federal and state programs in agreements referred to as either Designated Agencies (DA) or Specialized Service Agencies (SSA). During the award monitoring was performed over these entities related to Medicaid funds granted under the program as if the entity was a subrecipient, however we noted no similar during the award monitoring was performed related to the Vocational Rehabilitation program.
- All 8 procurement grants required specific performance measures to be met by the grantee and required periodic reporting to the Department. The information provided as part of the periodic reporting requirement was used to monitor the activities performed and related outcomes attained as a result of the services rendered by the grantee.

Given the inconsistencies noted above, it was unclear as to whether or not the Department had entered into a contract with a vendor or a grant with a subrecipient.

B. As outlined within the Department's federal award notice from the U.S. Department of Education, subgranting is not allowable under federal regulations. As noted above, the 8 procurement grants selected for testwork were considered to be contracts by the Department, however the nature of the agreements themselves were vague as the agreements contained characteristics of both a grant and a contract. As a result, it is unclear as to whether or not the 8 agreements selected for testwork are allowable under federal regulations.

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- C. The Department did not file a FFATA report for all 8 procurement grants selected for testwork. In accordance with 2 CFR 170, Requirements for Federal Funding Accountability and Transparency Act Implementation, it appeared that each of the 8 agreements selected for testwork met the definition provided as a reportable subaward and should have been reported if the amount of the award exceeded \$25,000. Of the 8 procurement grants selected for testwork, 5 should have been reported.
- D. During our testwork related to cash management, we noted per review of the grant agreement, the Department did not reimburse each grantee for costs incurred, but instead had a variety of funding mechanisms, including an initial advance payment with subsequent payments being composed of 1/4 of the granted amount or 1/12 of the granted amount. The Department did not appear to have any procedures in place to ensure that grantees did not have excess cash on hand during the year for all 8 of the procurement grants selected for testwork.

Cause

The cause of the condition found is that the Department and the Agency as a whole does not have any policies or procedures in place to make vendor and subrecipient determinations and when the determination is made, there is no documentation to support the rationale behind the determination. The agreements entered into are unclear and inconsistently used. The agreements do not consistently identify the award as either a vendor or subrecipient (all 8 of the agreements reviewed referred to the agreement as a grant agreement) and may contain elements of both relationships. The Department and Agency does not consistently code these agreements within the VISION grant tracking module (if required). Finally, the Department inconsistently performs during the award monitoring procedures over procurement grants as though they are subrecipient grants. In this program, we noted that the Department performed during the award monitoring procedures over procurement grants entered into with the DAs and SSAs related to Medicaid funds that were granted but none related to the Vocational Rehabilitation program.

Effect

The effect of the condition found is the Department may have entered into agreements that were unallowable under federal regulations. Given the nature of the agreement entered into, the Department may not have properly monitor the federal funds granted to ensure that they were used for allowable purposes. Finally, the Department did not properly report the subawards as required under FFATA.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department develop policies and procedures for entering into procurement grants and determine whether or not the agreements represent a vendor/contract relationship or a subrecipient relationship on a case by case basis and that the determination is properly documented and approved prior to entering into the agreement. Policies and procedures should be developed to ensure that all procurement grants consistently identify the nature of the funding relationship as either a vendor/contract or subrecipient

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relationship so that the grantee is aware of the determination. The Department should review its policies and procedures to ensure that procedures exist to determine what appropriate monitoring procedures should be performed over each procurement grant. Finally, the Department should review 2 CFR 170 and ensure it has properly reported all subawards as required for FFATA reporting purposes and develop procedures for documenting its conclusions on which procurement grant is required to be reported.

Management's Response and Corrective Action Plan

- A. The Department will develop a process for determining and documenting if a Vocational Rehabilitation agreement is a procurement grant or sub-recipient grant. The agreements will always be procurement grants under this program award because the U.S. Department of Education specifically prohibits sub-granting for this program. The Department does not delegate the core functions of the vocational rehabilitation program including the determination of eligibility, the development of the Individual Plan for Employment and the determination if a case should be closed. All those functions are performed by vocational rehabilitation counselors who are employees of the Department. The Department contracts with the vendors for specific job placement and support services authorized in the Individual Plan for Employment.

The Department has treated the DA Master (and SA) agreements as procurement grants, but acknowledges that the relationship has not been entirely clear. These agreements include two payment mechanisms that indicate both a procurement and sub-award arrangement for a variety of services and other departments. Portions of these agreements would be deemed to be carrying out a portion of a substantive federal program activity under 2 CFR 170, Requirements for FFATA Implementation. They therefore represent two types of relationships – sub-recipient and vendor/contractor. Going forward, the grant portion of the DA (and SA) shall be identified and treated as grant payments to a sub-recipient, where applicable. The agreements shall clearly segregate the grant payments from the fees-for-service payments, identify federal program requirements, include CFDA and DUNS number, be reported as required by FFATA, and be monitored appropriately. Currently, the Department monitors vocational rehabilitation through specific performance measures and periodic reporting of program outcomes.

- B. The Department will review the language in the grant agreements and where appropriate make changes to clarify the nature of the agreement. In particular, the Department will explicitly describe the role of vocational rehabilitation counselor in performing the core elements of the program. The Department will also make it explicit that the agreement does not delegate any of the core required functions of the vocational rehabilitation program to the grantee. We expect these revisions will make it clear the grant is not sub award, and therefore allowable under federal regulations.
- C. The Department maintains that the agreements do not meet the definition of a sub-award per 2 CFR 170 and therefore are not required to be reported for FFATA purposes. The definition states that the term sub-award does not include a procurement of property and services needed to carry out the project or program. It then refers to Sec.210 of OMB Circular A-133 for further explanation. This section provides guidance on making a distinction between a sub-recipient and a vendor. It lists characteristics for sub-recipients to include making eligibility and programmatic decisions; being responsible for Federal program compliance; and “carrying out” a program as compared to providing goods or services for a program of the pass-through. The awardees of these agreements do not perform any of

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these actions for VR services. The Department has not handed over these responsibilities to the awardees as they are conducted by state employees. The awardee performs services as directed by the department. Going forward the Department will document a determination for each agreement as to whether it is a sub-ward or vendor (procurement via grant form) in order to provide clarity on the relationship.

- D. The Department does have processes in place to reconcile initial advanced payments and subsequent payments to ensure grantees do not have excess cash on hand. The Department will document these processes and make them available.

Scheduled Date of Completion of Corrective Action Plan

Findings A, B, C & D – Develop policies & procedures regarding procurement grant consistency of treatment, determination, monitoring, identification, and reconciling of cash management – June 30, 2015

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief, 802-871-3006

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Finding 2014-023

U.S. Department of Education

Program Name and CFDA Number

Special Education Cluster:

Special Education – Grants to States (CFDA #84.027)

Special Education – Preschool Grants (CFDA #84.173)

Program Award Number and Year

H027A130171-13A 7/1/13–9/30/14

H173A130106 7/1/13–9/30/14

Criteria

A pass-through entity is responsible for monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, etc. to ensure that the subrecipient is in compliance with laws, regulations, and the grant agreement as well as to ensure that performance goals are being achieved.

Condition Found

The Vermont Agency of Education (the Agency) enters into grant agreements with Local Educational Agencies (LEA or subrecipients) for the purposes of meeting the objectives of this program. As part of its subrecipient monitoring process, the Agency performs both fiscal and programmatic on-site monitoring reviews. During our testwork over the Agency's subrecipient monitoring process, we noted the following:

Review of Grant Applications

- A. The Agency maintains a checklist to support its review over grant applications. For 1 of 15 grants selected for testwork, a page of the checklist used was not completed and as a result, we were unable to conclude that the grant application had been properly reviewed.

Fiscal Monitoring Reviews

- B. For 1 of 8 fiscal monitoring reviews selected for testwork, the Agency did not follow up to verify that findings identified during the review had been addressed and corrected by the LEA.
- C. For 6 of 8 fiscal monitoring reviews closed during the year ending June 30, 2014, the reviews related to fiscal years 2011 and 2012. It did not appear that the Agency had adequate procedures in place to ensure the timely completion of its fiscal monitoring reviews performed.

Programmatic Monitoring Reviews

- D. For 1 of 15 child count compliance reviews selected for testwork, we noted that the Agency could not locate the documentation submitted by the subrecipient as part of the review or the close out letter related to the review performed. As a result, we were unable to conclude that the review had been performed.

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- E. For 1 of 8 compliance reviews selected for testwork, we noted that the Agency could not locate the close out letter sent to the LEA. As a result, we were unable to conclude that the Agency had properly followed up and resolved any outstanding issues related to the review.

A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-018.

Cause

The cause of the condition found is primarily a result of insufficient procedures to ensure that all required documents are completed by the Agency as part of its review process, that findings are timely communicated to the LEA, and that the Agency has followed up on outstanding items related to the review in a timely manner.

Effect

The effect of the condition found is that instances of noncompliance with federal regulations applicable to the program at the subrecipient level may not be identified and followed up on timely by the Agency.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend the Agency review its existing fiscal and programmatic monitoring procedures and develop controls to ensure that all procedures are performed timely and are properly documented. The written procedures should ensure that all required documentation is compiled and maintained to support each monitoring visit. A supervisory review should be conducted to ensure each file is complete prior to closure.

Management's Response and Corrective Action Plan

Grant Applications: 1) For all FY15 IDEA-B grants and grant revisions, the school finance analysts will re-review all grant checklists to ensure all check boxes are completed. 2) The special education finance manager will add a step to her review process to verify that all checklists are completed.

Fiscal: For B, staffing issues resulted in the necessary follow-up for one audit not being completed. Follow-up has now been completed. We also developed a new tracking system in January to ensure that follow-up occurs even if staff changes. For C, in FY14 audits were finalized for fiscal years 11 and 12. The audit process has been changed for FY15 to review current year information so this does not occur again.

Program: We will review our procedures to ensure that monitoring documentation is maintained.

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Scheduled Completion Date of Corrective Action Plan

Grant Applications: 1) This will be completed by 3/15/2015. 2) This process began on 1/14/2015 (the day that KPMG first notified the Agency of this error).

Fiscal Monitoring: Completed

Program Monitoring: 4/30/15

Contact for Corrective Action Plan

Grant Applications: Nicole Tousignant, Special Education Finance Manager, (802) 479-1137

Program Monitoring: Alice Farrell, Assistant Division Director, (802) 479-1191

Fiscal Monitoring: Nicole Tousignant, Special Education Finance Manager, (802) 479-1137

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Finding 2014-024

U.S. Department of Education

Program Name and CFDA Number

Special Education Cluster:

Special Education – Grants to States (CFDA #84.027)

Special Education – Preschool Grants (CFDA #84.173)

Program Award Number and Year

H027A130171-13A 7/1/13–9/30/14

H173A130106 7/1/13–9/30/14

Criteria

A state may not reduce the amount of state financial support for special education and related services for children with disabilities (or state financial support otherwise made available because of the excess costs of educating those children) below the amount of state financial support provided for the preceding fiscal year.

Condition Found

The Vermont Agency of Education (the Agency) requires Local Educational Agencies (LEAs or subrecipients) to submit Special Education Expenditure Reports (SEER) which are used to report state and federal funded education expenditures incurred at the subrecipient level. The Agency uses this information to help monitor compliance with the annual maintenance of effort requirement. The Agency uses a review sheet that includes a space for the Agency to check off once any issues identified during the review of the SEER reports have been resolved. During our testwork over the Agency’s review of the SEER reports, we noted that for 3 of 15 SEER reports, the Agency did not check off the review sheet to indicate that the issues identified during their review had been resolved. As a result, we were unable to conclude that the SEER reports were accurate.

Cause

The cause of the condition found is primarily due to insufficient procedures to ensure that the review sheets are properly completed prior to using the data submitted by the LEA as part of the maintenance of effort calculation.

Effect

The effect of the condition found is that inaccurate data could be used by the Agency in determining whether or not it met its annual maintenance of effort requirement.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

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Questioned Costs

None.

Recommendation

We recommend the Agency review its existing controls surrounding the review of SEER reports and implement a supervisory review process to ensure that all SEER reports are reviewed and approved prior to utilizing the data to calculate compliance with its annual maintenance of effort requirement.

Management's Response and Corrective Action Plan

1. For all FY15 IDEA-B grants and grant revisions, the school finance analysts will re-review all grant checklists to ensure all check boxes are completed.
2. The special education finance manager will add a step to her review process to verify that all checklists are completed.

Scheduled Completion Date of Corrective Action Plan

- 1) This will be completed by 3/15/2015.
- 2) Our process changed on 1/14/2015 (the day that KPMG first notified AoE of this error).

Contact for Corrective Action Plan

Nicole Tousignant, Special Education Finance Manager, (802) 479-1137

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Finding 2014-025

U.S. Department of Education

Program Name and CFDA Number

Twenty-First Century Community Learning Centers (CFDA #84.287)

Program Award Number and Year

S287C130046 7/1/13–9/30/14

Criteria

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS) and report subaward data through FSRS. Subawards are to be reported no later than the last day of the month following the month in which the subaward/subaward amendment obligation was made or the subcontract award/subcontract modification was made.

Condition Found

We noted that for 7 of 15 grants selected for testwork, the Vermont Agency of Education (the Agency) entered the grants into FRSR, however it did not appear they were not entered within the timeframe required.

Cause

The cause of the condition found was due to the fact that the Agency did not maintain documentation to support its good faith reporting efforts prior to the Federal Award Identification Number (FAIN) being available within FSRS allowing the Department to report the subawards.

Effect

The effect of the condition found is the Agency does not have documentation to support timely reporting of subawards as required under FFATA.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend the Agency review its procedures to ensure that all subawards are reported timely in accordance with FFATA requirements. Documentation should be maintained to support good faith reporting efforts for all subawards when the FAIN number is not available to report under within FSRS.

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Management's Response and Corrective Action Plan

The reporting site did not have FAINs available in a timeframe that allowed us to report timely. Unfortunately, we were not able to provide KPMG with documentation to demonstrate that, although it has been a known issue with the site. Moving forward we will screen-shot system issues as they arise.

Scheduled Completion Date of Corrective Action Plan

Completed

Contact for Corrective Action Plan

Kathy Flanagan, Financial Director, (802) 479-1766

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Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Finding 2014-026

U.S. Department of Education

Program Name and CFDA Number

Twenty-First Century Community Learning Centers (CFDA #84.287)

Program Award Number and Year

S287C130046 7/1/13–9/30/14

Criteria

A pass through entity is responsible for monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition Found

The Vermont Agency of Education (the Agency) enters into grant agreements with Local Educational Agencies (LEA or subrecipient) for the purposes of meeting the objectives of this program. As part of its subrecipient monitoring process, the Agency performs both fiscal and programmatic on-site monitoring reviews. During our testwork over the Agency's subrecipient monitoring process, we noted the following:

Fiscal Monitoring Reviews

- A. For 4 of 10 fiscal monitoring reviews selected for testwork, the Agency did not include all of the findings noted during the visit in the findings letter sent to the LEA following the visit. As a result, we were unable to conclude that all of the findings were communicated and resolved.

Programmatic Monitoring Reviews

- B. For 1 of 15 subrecipients selected for testwork, we noted that the subrecipient had not been monitored in the last 3 years as required by the Agency's policy.

A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-020.

Cause

The cause of the condition found related to fiscal monitoring reviews is primarily due to insufficient procedures to ensure that the Agency documents which findings identified as part of their monitoring review process requires follow up with the LEA versus observations or insignificant matters that were noted that do not require further corrective action by the LEA.

The cause of the condition found related to programmatic monitoring reviews is primarily a result of insufficient resources to ensure that all subrecipients are monitored in compliance with its internal policy, or if the policy will be deviated from, maintaining documentation to support the rationale behind the modification to the policy.

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Effect

The effect of the condition found is that instances of noncompliance with federal regulations applicable to the program at the subrecipient level may not be identified and followed up on timely by the Agency.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend the Agency review its existing fiscal and programmatic monitoring procedures and develop controls to ensure that all procedures are performed timely and are properly documented. The written procedures should ensure that all required documentation is compiled and maintained to support each monitoring visit. A supervisory review should be conducted to ensure each file is complete prior to closure.

Management's Response and Corrective Action Plan

Fiscal: We have added wording to each section of our monitoring protocol questionnaire and on each line of our grant specific expenditure review that details the results as "compliant" "finding" or "disallowed costs". This will help highlight findings or disallowed costs in the many pages of notes in each file. Beginning immediately, the Agency of Education monitoring team will meet after each monitoring visit to review the findings and disallowed costs identified by each member of the team, to come to an agreement on the status of our notes, and to make sure findings and disallowed costs are detailed in our monitoring report. In addition, monitoring reports will be reviewed by each team member before they are sent out.

Program: The fact that one grantee was not monitored in the 'three year timeframe' was not due to a lack of established procedures and tracking. Indeed, each year a risk assessment is completed and some grantees are delayed consciously beyond the 'three year timeframe' goal with intent because other grantees must take precedence due to enhanced need and risk. Organizational capacity may also play a part in the decision. This was the case in this 1 of 15 case listed and is the case as well in the current year as well where a few grantees will not receive their monitoring within the expected three year timeframe due to the enhanced risk and need of other projects. It should be noted that the three year timeframe is an agency goal and not a federal requirement. The monitoring policy will be revised to more accurately reflect how the risk assessment takes precedence annually.

Scheduled Completion Date of Corrective Action Plan

Fiscal: Completed

Program: August 1, 2015

Contact for Corrective Action Plan

Fiscal: Cassandra Ryan, School Finance Analyst, (802) 479-8545

Program: Emanuel Betz, Education Consultant, (802) 479-1396

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Finding 2014-027

U.S. Department of Education

Program Name and CFDA Number

Twenty-First Century Community Learning Centers (CFDA #84.287)

Program Award Number and Year

S287C130046 7/1/13–9/30/14

Criteria

A school participating under Title I, Part A may, in consultation with its LEA, use its Title I, Part A funds, along with funds provided from the above-identified programs and other Federal, State, and local education funds, to upgrade the school's entire educational program in a schoolwide program. At least 40% of the children enrolled in the school or residing in the school attendance area for the initial year of the schoolwide program must be from low-income families.

For programs funded under Title I, Part A (CFDA 84.010), a Local Educational Authority (LEA or subrecipient), after timely and meaningful consultation with private school officials, must provide equitable services to eligible private school children, their teachers, and their families. Eligible private school children are those who reside in a participating public school attendance area and have educational needs under Section 1115(b) of the ESEA (20 USC 6315(b)).

Condition Found

During our testwork over special tests and provisions related to schoolwide programs and private school participation, we noted the following:

- A. The Vermont Agency of Education (the Agency) is required to notify subrecipients of their authority to consolidate federal, state, and local funds in schoolwide programs. The Agency does not maintain documentation to support this notification to its subrecipients and, as a result, we were unable to verify that the Agency had properly communicated the information for all 15 grants selected for testwork.
- B. As part of its monitoring process, the Agency should be collecting information to ensure the subrecipients conducted timely consultation with private school officials in making its determination and set aside the required amount for private school children. The Agency does not perform any monitoring procedures around private school participation and does not collect information to show timely consultation. As a result, we were unable to conclude that the Agency had properly monitored this requirement for all 15 grants selected for testwork.

Cause

The cause of the condition found is a lack of documentation to support the communications between the Agency and the subrecipients regarding schoolwide programs and private school participation consultations.

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Effect

The effect of the condition found is the Agency may not be properly communicating to subrecipients their ability to participate in a schoolwide programs. In addition, the Agency is unable to monitor compliance with private school participation consultations.

The condition found appears to be systemic in nature and appears to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend that the agency review its procedures for communicating with subrecipients their ability to participate in schoolwide programs and ensure that this communication includes consolidating with all applicable funding sources. In addition, the Agency should review its procedures for monitoring compliance with private school participation consultations to ensure the appropriate consultation is being performed at the subrecipient level.

Management's Response and Corrective Action Plan

- A. Schoolwide programs – The schoolwide program requirement language will be listed in the annual grant award within Grantium and documentation will be maintained with that system via Superintendent signature.
- B. Private School Participation – Currently, 22 of 120 communities have private schools. A webinar will be created and completed to advise grantees of their legal responsibilities By March 1, 2015. The timeline/documentation for consultation will cover two years (2015-16) in the first year as part of the Annual Performance Report. Resources from this webinar will be posted on the agency website. A new section of the Annual Performance Report will be created, which will gather documentation around private school consultation including:
 - 1) A check box asserting there are private schools in the 21c funded project or not.
 - 2) Documentation choices from a list of how consultation occurred and how many times (letter/email/phone/other)
 - 3) Documentation of an affirmation that letters, consultation logs, and actions taken, if any are documented and on site.

Scheduled Completion Date of Corrective Action Plan

- A. This change has been made within the Grantium system and is ready for FY16 preparation.
- B. July 15, 2015

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Contact for Corrective Action Plan

Emanuel Betz, Education Consultant, (802) 479-1396

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Finding 2014-028

U.S. Department of Education

Program Name and CFDA Number

Improving Teacher Quality State Grants (CFDA #84.367)

Program Award Number and Year

S367A130043 7/1/13–9/30/14

Criteria

A pass through entity is responsible for monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and those performance goals are achieved.

Condition Found

The Vermont Agency of Education (the Agency) enters into grant agreements with Local Educational Agencies (LEAs or subrecipient) for the purposes of meeting the objectives of this program. As part of its subrecipient monitoring process, the Agency performs both fiscal and programmatic on-site monitoring reviews. During our testwork over the Agency's subrecipient monitoring process, we noted the following:

Fiscal Monitoring Reviews

- A. For 6 out of 15 monitoring visits, the Agency did not include all of the findings noted during the visit in the findings letter sent to the subrecipient following the visit. As a result, we were unable to conclude that all of the findings were communicated and resolved.

Programmatic Monitoring Reviews

- B. For 6 of 15 subrecipients selected for testwork, we noted that there was no record of the last time the subrecipient had been monitored. In addition, for 2 of 15 subrecipients selected for testwork, we noted that the subrecipients had not been monitored in the last 5 years as required by the Agency's policy. As a result, we were unable to conclude that the subrecipient had been properly monitored.

A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-023.

Cause

The cause of the condition found related to fiscal monitoring reviews is primarily due to insufficient procedures to ensure that the Agency documents which findings identified as part of their monitoring review process requires follow up with the LEA versus observations or insignificant matters that were noted that do not require further corrective action by the LEA.

The cause of the condition found related to programmatic monitoring reviews is primarily a result of insufficient resources to ensure that all subrecipients are monitored in compliance with its internal policy, or

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if the policy will be deviated from, maintaining documentation to support the rationale behind the modification to the policy.

Effect

The effect of the condition found is that instances of noncompliance with federal regulations applicable to the program at the subrecipient level may not be identified and followed up on timely by the Agency.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend the Agency review its existing fiscal and programmatic monitoring procedures and develop controls to ensure that all procedures are performed timely and are properly documented. The written procedures should ensure that all required documentation is compiled and maintained to support each monitoring visit. A supervisory review should be conducted to ensure each file is complete prior to closure.

Management's Response and Corrective Action Plan

Fiscal: We have added wording to each section of our monitoring protocol questionnaire and on each line of our grant specific expenditure review that details the results as "compliant" "finding" or "disallowed costs". This will help highlight findings or disallowed costs in the many pages of notes in each file. Beginning immediately, the Agency of Education monitoring team will meet after each monitoring visit to review the findings and disallowed costs identified by each member of the team, to come to an agreement on the status of our notes, and to make sure findings and disallowed costs are detailed in our monitoring report. In addition, monitoring reports will be reviewed by each team member before they are sent out.

Program: As a result of audit findings last year, a new program monitoring plan was approved and implemented as of July 1, 2014. The plan can be found on our website at: <http://education.vermont.gov/documents/CFP%20Annual%20Program%20Review%20Process.pdf> and covers program monitoring for Title I, Title IIA, Homeless Education. The documents used in monitoring are also posted on the website at: [http://education.vermont.gov/federal education programs/consolidated federal programs](http://education.vermont.gov/federal%20education%20programs/consolidated%20federal%20programs). As of January 2015, we have implemented this plan by scheduled onsite monitoring of Barre Supervisory Union (completed), Windham Southeast Supervisory Union (completed), and Montpelier School District (scheduled). The CFP team is also in the process of doing focus monitoring as follows: Comparability (completed), equitable service to independent schools (Title I and Title IIA (ongoing), and NCLB required Annual Report Cards (ongoing).

Scheduled Completion Date of Corrective Action Plan

Fiscal: Completed

Program: Completed

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Contact for Corrective Action Plan

Fiscal: Cassandra Ryan, School Finance Analyst, (802) 479-8545

Program: Mary Catherine (MC) Moran, Education Consultant, (802) 479-1205

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Finding 2014-029

U.S. Department of Education

Program Name and CFDA Number

Improving Teacher Quality State Grants (CFDA #84.367)

Program Award Number and Year

S367A130043 7/1/13–6/30/14

Criteria

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS) and report subaward data through FSRS. Subawards are to be reported no later than the last day of the month following the month in which the subaward/subaward amendment obligation was made or the subcontract award/subcontract modification was made.

Condition Found

During our testwork over FFATA reporting, we noted that for 2 of 15 grants selected for testwork, the Vermont Agency of Education (the Agency) entered the grants into FRSR, however it did not appear they were not entered within the timeframe required.

Cause

The cause of the condition found was due to the Agency not maintaining documentation to support its good faith reporting efforts prior to the Federal Award Identification Number (FAIN) being available within FSRS allowing the Department to report the subawards.

Effect

The effect of the condition found is the Agency does not have documentation to support timely reporting of subawards as required under FFATA.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend the Agency review its procedures to ensure that all subawards are reported timely in accordance with FFATA requirements. Documentation should be maintained to support good faith reporting efforts for all subawards when the FAIN number is not available to report under within FSRS.

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Management's Response and Corrective Action Plan

The reporting site did not have FAINs available in a timeframe that allowed us to report timely. Unfortunately, we were not able to provide KPMG with documentation that, although it has been a known issue with the site. Moving forward we will screen-shot system issues as they arise.

Scheduled Completion Date of Corrective Action Plan

Completed

Contact for Corrective Action Plan

Kathy Flanagan, Financial Director, (802) 479-1766

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Finding 2014-030

U.S. Department of Health and Human Services

Program Name and CFDA Number

Aging Cluster:

Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers (CFDA #93.044)

Special Programs for the Aging – Title III, Part C – Nutrition Services (CFDA #93.045)

Nutrition Services Incentive Program (CFDA #93.053)

Program Award Number and Year

14AAVTTCM 10/1/2013–9/30/2014

14AAVTTHD 10/1/2013–9/30/2014

14AAVTTHD 10/1/2013–9/30/2014

Criteria

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS) and report subaward data through FSRS. Subawards are to be reported no later than the last day of the month following the month in which the subaward/subaward amendment obligation was made or the subcontract award/subcontract modification was made.

Condition Found

During our testwork over FFATA reporting, we noted that all 3 of the subawards selected for testwork were reported within the FSRS system however, the total amount reported within FSRS did not agree with actual amount awarded within the individual grant agreements.

Cause

The cause of the condition found is that the Vermont Department of Disabilities, Aging and Independent Living (the Department) used estimated resource projections to report its obligated grant amount within FSRS. Once the actual federally funded amount is known, the Department does not file an amended FFATA report to report the updated grant obligation amount within FSRS. The Department currently does not have a process in place to review and report changes in obligated grant amounts of any dollar amount, including those changes greater or equal to \$25,000 that are required to be reported in FSRS.

Effect

The effect of the condition found is that FFATA reports were filed inaccurately.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

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Questioned Costs

None.

Recommendation

We recommend that the Department along with the Agency of Human Services develop written policies and procedures to document how subrecipient grant modifications will be reported within the FSRS system. A reconciliation between the amount awarded to individual subrecipients and the amount reported in FSRS should be performed to ensure that all required amounts have been reported and have been reported timely.

Management's Response and Corrective Action

The Department has historically used the Resource Projections as the obligating document and therefore used this document to enter the FFY14 amounts into the FSRS system. Starting with FFY15 the Department will use the award letter as the obligating document and procedures have been implemented to enter into the FSRS system utilizing these documents. The FFATA reporting procedures have also been revised to include Sub-award amendments equal to or greater than \$25,000.

Scheduled Date of Completion of Corrective Action Plan

October 30, 2014

Contact for Corrective Action Plan

Linda DuCharme, Financial Manager, DAIL Business Office, 802-871-3212

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Finding 2014-031

U.S. Department of Health and Human Services

Program Name and CFDA Number

State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchange (CFDA #93.525)

Program Award Number and Year

6HBEIE120080-01-05 11/29/11–8/27/13

6HBEIE130147-01-02 1/16/13–12/31/14

6HBEIE130168-01-01 7/9/13–7/8/14

BEIE120130-01-04 8/23/12–12/31/14

Criteria

At the time of the subaward, a pass-through entity is responsible for identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS) and report subaward data through FSRS. Subawards are to be reported no later than the last day of the month following the month in which the subaward/subaward amendment obligation was made or the subcontract award/subcontract modification was made.

Condition Found

The Agency of Human Services (the Agency) has entered into agreements with third party organizations through the use of a procurement grant. The Agency has an approved contracting plan with the Vermont Agency of Administration whereby the Departments of the Agency are allowed to enter into a grant in accordance with the State of Vermont subrecipient monitoring policy contained within State of Vermont Bulletin 5.5, *Policy for Issuing Grants for State Funds*, for items that may traditionally be entered into using a contract. The Department considers a procurement grant to be a contract with a vendor and not a traditional subrecipient grant (or subaward). During our testwork over amounts paid through the use of procurement grants under this program, we noted the following:

- A. For 2 of 5 procurement grants selected for testwork, the Department of Vermont Health Access (the Department) entered into grants to receive a variety of services from each organization related to the Vermont Blueprint for Health program operated on behalf of the State of Vermont. In addition to these services, both organizations were required to provide navigator services on behalf of the Vermont Health Care Exchange. The navigator services were paid for using federal funds for this program. As the Department considered the agreements to be contracts, the Department did not communicate to the grantee the federal award information related to the federal funds awarded under the procurement grants. Given the nature of the services to be rendered on behalf of the Department in support of the grant itself, this appears to be more of a subrecipient relationship than a vendor

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relationship. As such, the procurement grants should have included the required federal award information, such as CFDA number and federal program name.

- B. For 2 of 5 procurement grants selected for testwork, the Department did not file FFATA reports as the Department considers the procurement grants to be contracts. In accordance of 2 CFR 170, Requirements for Federal Funding Accountability and Transparency Act Implementation, these 2 procurement grants selected for testwork met the definition provided as a reportable subaward and should have been reported as the amount of the award exceeded \$25,000.
- C. For 3 of 5 subawards selected for testwork, the Department did not file FFATA reports within FSRS timely.

Cause

The cause of the condition found related to procurement grants is that the Department and the Agency as a whole does not have any policies or procedures in place to make vendor and subrecipient determinations and when the determination is made, there is no documentation to support the rationale behind the determination. The agreements entered into are unclear and inconsistently used. The agreements do not consistently identify the award as either a vendor or subrecipient (the agreements identified in Bullet A above referred to the agreement as a grant agreement) and may contain elements of both relationships.

The cause of the condition found related to untimely FFATA report was primarily due to insufficient procedures to ensure that awards are tracked and monitored to ensure that they are filed within the correct time period.

Effect

The effect of the condition found is the Department may not be properly communicating federal award information to grantees and filing FFATA reports timely.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department develop policies and procedures for entering into procurement grants and determine whether or not the agreements represent a vendor/contract relationship or a subrecipient relationship on a case by case basis and that the determination is properly documented and approved prior to entering into the agreement. Policies and procedures should be developed to ensure that all procurement grants consistently identify the nature of the funding relationship as either a vendor/contract or subrecipient relationship so that the grantee is aware of the determination. The Department should review its policies and procedures to ensure that procedures exist to determine what appropriate monitoring procedures should be performed over each procurement grant. Finally, the Department should review 2 CFR 170 and ensure it has properly reported all subawards as required for FFATA reporting purposes and develop procedures for documenting its conclusions on which procurement grant is required to be reported.

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Management's Response and Corrective Action Plan

- A. & B. The Department of Vermont Health Access disagrees with these parts of the finding. The two agreements cited as not having CFDA information in their agreements and not being reported in the FSRS system are not considered federal sub-awards. They therefore are not required to meet these requirements. These agreements are contracts in grant form. They are included in the AHS Contract Plan, allowed under the Agency of Administration Bulletin 3.5., within the Blue Print for Health program line. The department refers to them as Procurement Grants and includes such language in the written agreements as well as identifying them to the Blue Print for Health operations. A-133 allows for different forms of agreements and what they are called. A-133 also states that substance is more important than form when determining whether an agreement is a sub-award or a contract. Therefore, even though an agreement is in grant form and contains Federal funding it does not necessarily mean that they are not procurement in substance. The substance of these agreements is specific as to staffing being used, services expected, invoicing, and general operational duties. The department manages these agreements with oversight and expectations the same as they would with an agreement in contract form.
- C. We agree with condition C that we did not meet this deadline for these particular agreements. We did not meet this deadline as we understood that the funding allocations for these agreements were going to be updated and amendments issued, and FSRS later updated with the appropriate funding mix. DVHA does have procedures and systems in place to enter the FSRS within the required timelines, and will continue to enter FSRS based on issued funding and update upon amendment (in the rare instances when funding may change) rather than waiting for amended agreement. These agreements will be entered into FSRS appropriately.

Scheduled Date of Completion of Corrective Action Plan

- A. & B. No action required.
- C. Immediately acted upon. Completed

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

Rejoinder

As indicated above, the Department does not maintain documentation to support its vendor determination process and due to the manner in which the agreements are entered into it is unclear as to whether or not they have entered into a subrecipient or vendor relationship. In addition, subawards (whether in a grant or contract form) are required to be reported within FSRS under 2 CFR 170.

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Finding 2014-032

U.S. Department of Health and Human Services

Program Name and CFDA Number

State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchange (CFDA #93.525)

Program Award Number and Year

6HBEIE120080-01-05 11/29/11–8/27/13

6HBEIE130147-01-02 1/16/13–12/31/14

6HBEIE130168-01-01 7/9/13–7/8/14

6HBEIE120130-01-04 8/23/12–12/31/14

Criteria

States are required to follow 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 45 CFR Part 92.36. As part of the Federal Cooperative Agreement, substantial federal involvement with the state is anticipated during performance, as such the Center for Medicaid Services (CMS) purpose is to support the State's activities and work jointly in the state in a partnership role.

Condition Found

As part of the development and implementation of the State of Vermont Health Care Exchange, the Vermont Department of Vermont Health Access (the Department) entered into contracts with third parties to assist with the project. During our testwork over the procurement process, we noted that for 1 of 25 contract payments selected for testwork, the payment included a reimbursement for subcontractor costs related to services performed prior to the execution of the contract. As a result, the payment made to the contractor was not in line with the payment terms outlined within the contract.

Cause

The cause of the condition found is primarily due to deficiencies within the Department's review and approval process over contracts and related invoices.

Effect

The effect of the condition found is that costs were incurred under this program that may not be reasonable or appropriate given the payment structure of the contract or amounts could have been paid in excess of what was approved by CMS.

The condition found does not appear to be systemic in nature but is considered to be a significant deficiency in internal control.

Questioned Costs

\$2,393

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Recommendation

We recommend that the Department review its existing procedures for monitoring contracts and ensure that amounts requiring approval from CMS are correctly included within the contract. In addition, contracts should be monitored to ensure if ad hoc services are to be provided, the contract addresses how such services will be paid prior to incurring a payment for such services.

Management's Response and Corrective Action Plan

The Vendor contract from Agency of Administration (AoA) #23384 effective 10/5/12-9/30/13 was transferred to DVHA #26195. The two contracts were for the same scope of services and were both approved by CMS. The amount in question was for services provided under the AoA contract and paid under the DVHA contract. All services were related to the scope of the two contracts and not considered ad-hoc. However, we do acknowledge that the service date of the DVHA contract should have been clearer to include the known overlap with the AoA contract. Going forward we will have a better communication of hand off for any contracts that are transferred between state entities to ensure a clean and clear transfer occurs.

Scheduled Completion Date of Corrective Action Plan

Immediately acted upon in September 2014. Completed.

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

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Finding 2014-033

U.S. Department of Health and Human Services

Program Name and CFDA Number

CCDF Cluster:

Child Care and Development Block Grant (CFDA #93.575)

Child Care Mandatory and Matching Funds for the Child Care and Development Fund (CFDA #93.596)

Program Award Number and Year

2013G996005	Discretionary	10/1/2012–9/30/2013
2013G999004	Mandatory	10/1/2012–9/30/2013
2013G999005	Matching	10/1/2012–9/30/2013
2014G996005	Discretionary	10/1/2013–9/30/2014
2014G999004	Mandatory	10/1/2013–9/30/2014
2014G999005	Matching	10/1/2013–9/30/2014

Criteria

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS) and report subaward data through FSRS. Subawards are to be reported no later than the last day of the month following the month in which the subaward/subaward amendment obligation was made or the subcontract award/subcontract modification was made.

Condition Found

During our testwork over FFATA reporting, we noted the following:

- A. For 2 of 7 grants selected for testwork, we noted that the grants were entered into the FSRS system more than 6 months after the required reporting deadline.
- B. For 5 of 7 grants selected for testwork, we noted that the grants were not entered into the FSRS system as required.

Cause

The cause of the condition found was due to the lack of controls and procedures implemented within the Vermont Department for Children and Families (the Department) to ensure timely review and submission of grants to the FSRS site.

Effect

The effect of the condition found is that FFATA reports either were not filed or filed timely.

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The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department develop controls and procedures to track the issuance date and amounts of all grants to ensure that the all required FFATA reports are filed timely in accordance with federal regulations.

Management's Response and Corrective Action Plan

- A. The Department for Children & Families agrees with this section of the finding. The lateness of filing was due to oversight and work load. The Contract/Grant unit will review its procedures and strive for timeliness.
- B. The Department for Children & Families agrees with this section of the finding. Failure to report was an oversight due to workload. The Contract/Grant unit will review its procedures and strive for timeliness.

For additional steps, The Department for Children & Families (DCF) has recently instituted e-signature for all agreements. This will cut down tremendously on time as the Contract/Grant Unit will no longer need to hunt down manually signed documents. DCF has also recently created a grant worksheet that is required to be filled out prior to submitting grants for review to the Contract/Grant Unit. This worksheet requires all pertinent information be entered/verified prior to submittal. This, too, will speed up the process with regard to FFATA upload/updates.

Scheduled Date of Completion of Corrective Action Plan

The Contract/Grant unit has reviewed its procedures as of November 14, 2014. Action completed.

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

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Finding 2014-034

U.S. Department of Health and Human Services

Program Name and CFDA Number

CCDF Cluster:

Child Care and Development Block Grant (CFDA #93.575)
Child Care Mandatory and Matching Funds for the Child Care and Development Fund (CFDA #93.596)

Program Award Number and Year

2013G996005	Discretionary	10/1/2012–9/30/2013
2013G999004	Mandatory	10/1/2012–9/30/2013
2013G999005	Matching	10/1/2012–9/30/2013

Criteria

A pass-through entity is responsible for determining whether an applicant for a subaward has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before award (2 CFR section 25.110 and Appendix A to 2 CFR part 25).

Condition Found

During our testwork over subrecipient monitoring, we noted the following related to DUNS numbers:

- A. For 1 of 7 grants selected for testwork, the grant award did not contain a DUNS number and it appears that the Vermont Department for Children and Families (the Department) did not obtain the DUNS number prior to awarding the funds to the subrecipient.
- B. For 1 of 7 grants selected for testwork, the Department had obtained a DUNS number, however the DUNS number was incorrect.

Cause

The cause of the condition found is due to a lack of oversight on the grant award documents to ensure that all information is obtained, including a DUNS number at the time the grant award is executed.

Effect

The effect of the condition found is that a grant may be entered into with an entity that is not eligible to receive federal funds.

The condition found appears to be systemic in nature and is considered a significant deficiency in internal control.

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Questioned Costs

None.

Recommendation

We recommend that the Department review its existing procedures and implement the required controls to ensure that the Department obtains all the required information from its grantees, including DUNS numbers, prior to executing the grant agreement.

Management's Response and Corrective Action Plan

A&B. The Department For Children & Families (DCF) agrees with this finding. The Contract/Grant unit will review its procedures and include a check for obtaining DUNS numbers for grants and ensuring that the awards include the correct one. DCF has recently created a grant worksheet that is required to be filled out prior to submitting grants for review to the Contract/Grant Unit. This worksheet requires all pertinent information be entered/verified prior to submittal. This, too, will ensure complete and correct information.

Scheduled Date of Completion of Corrective Action Plan

The Contract/Grant unit has reviewed its procedures as of November 14, 2014. Action completed.

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

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Finding 2014-035

U.S. Department of Health and Human Services

Program Name and CFDA Number

TANF Cluster:

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)

Program Award Number and Year

1402VTTANF 10/1/2013–9/30/2014

1302VTTANF 10/1/2013–9/30/2013

Criteria

The State or Tribal Plan provides the specifics on how eligibility is determined in each state or tribal service area. Whenever used in this section, “assistance,” has the meaning in 45 CFR section 260.31(a) of the TANF regulations for states and 45 CFR section 286.10 of the Tribal TANF regulations for federally recognized Tribes operating an approved Tribal TANF program.

Condition Found

During our testwork over the eligibility determination process for the TANF program, we noted the following:

- A. For 2 of 40 cases selected for testwork, the cases lacked documentation to support the amount of shelter expense that was used in the eligibility process and to calculate the participants eligible benefit payment. As a result, we were unable to conclude that the benefit amount paid was accurate.
- B. For 6 of 40 cases selected for testwork, the cases lacked a completed and signed “Child and Medical Support Authorization and Application for Services from the Office of Child Support” form, filed by participant households that contain children with absent parent(s), who owe child support for the child(ren) of the household. This form authorizes the state to offset the grant amount by child support received. As a result, we were unable to conclude that the benefit amount paid to these participants was accurate.
- C. For 2 of 40 cases selected for testwork, the cases lacked documentation to support that a Family Development Plan (FDP) was in place, and that the participant was in compliance with the FDP. As a result, we were unable to conclude if the participant was in compliance with the FDP and was therefore, eligible to receive the maximum benefit amount or if the amount should have been reduced as a result of a sanction for noncompliance with the FDP.
- D. For 1 of 40 cases selected for testwork, we were unable to determine if a participant’s application was complete, as pages 4 through 17 of the application could not be provided to us during fieldwork.

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A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-030.

Cause

The cause of the condition found is that the Department relies completely on the ACCESS system and does not perform a sufficient independent review to ensure that the data entered into the ACCESS system is accurate and that the ACCESS system has determined benefit eligibility determinations correctly. Periodic eligibility reviews are performed by the Department in order to ensure continued eligibility for all participants, however the review focuses on a prospective eligibility determination and not a retrospective review to see if the prior determination was accurate. In addition, we also noted that there has been a large increase in the caseload being reviewed by the Department, and at the same time, the number of Case Managers that review for eligibility has decreased. We noted that the Department implemented an external quality review process during the current year, however during our review of a sample of quality reviews performed, we noted that the documentation of the review was inconsistent and when errors were identified, there was no resolution of the matter documented within the review notes.

Effect

The effect of the condition found is that errors in eligibility or the calculation of a benefit amount could occur and the Department does not have a mechanism in place to timely identify errors made.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review its procedures and implement controls to ensure that a quality control review is performed over the eligibility determinations made by the ACCESS system in order to verify that such eligibility determinations are accurate and the benefit payment amounts are appropriate. This would include procedures to ensure that the data entered into the ACCESS system that is used to determine eligibility is accurate and properly supported with external documentation. Procedures should be developed to ensure that all reviews are performed consistently and ensure that errors noted as part of the quality control review are properly resolved. The resolution of the matter should be documented.

Management's Response and Corrective Action Plan

The corrective action plan for this year is to continue monitoring the actions that were put into practice last year to see if they alleviate the findings, please see reference to these actions taken below. Conditions D (missing application pages) and E (control environment in ACCESS – IT database) will be addressed through supervisory case reviews which already take place.

- A. The lack of shelter verification. All eligibility staff received an online training via Camtasia that focused on what documentation must be obtained before Reach Up can be granted which included that shelter must be verified to be listed as an expense in the budget. The supervisors proctored this training and kept an attendance list. This was completed by May 30, 2014.

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- B. The lack of “Child and Medical Support Authorization” forms (137’s) was addressed by a new standard operating procedure where staff were expected to send the 137’s electronically to the Office of Child Support the day the case is granted. The online training focused on documentation needed, also include this as an area of focus. This was completed by May 30, 2014.
- C. Lack of family development plan. Case managers and team leaders received procedures on how to ensure there is a current family development plan for each participant. Quarterly, case managers will need to go through every case file and report to their team leader they have a current family development plan on each case. This procedures were completed by May 30, 2014 and put into practice July 1, 2014.

D&E. As noted above.

In response to all of the findings, supervisors and team leaders will continue to complete supervisory case reviews.

Scheduled Completion Date of Corrective Action Plan

Completed July 1, 2014

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

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Year ended June 30, 2014

Finding 2014-036

U.S. Department of Health and Human Services

Program Name and CFDA Number

TANF Cluster:

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)

Program Award Number and Year

1402VTTANF 10/1/2013–9/30/2014

1302VTTANF 10/1/2013–9/30/2013

Criteria

The State or Tribal Plan provides the specifics on how eligibility is determined in each state or tribal service area. Whenever used in this section, “assistance,” has the meaning in 45 CFR section 260.31(a) of the TANF regulations for states and 45 CFR section 286.10 of the Tribal TANF regulations for federally recognized Tribes operating an approved Tribal TANF program.

Condition Found

The Economic Services Division of the Department for Children and Families (the Department) utilizes the ACCESS system, the State of Vermont’s benefit eligibility maintenance system, to determine eligibility for the program. After the eligibility specialist enters financial information into the ACCESS system, ACCESS determines whether or not the applicant is eligible for benefits as well as the amount of benefits the participant is eligible for. The Department primarily relies on the information technology (IT) controls embedded within the ACCESS system to ensure that the system is operating correctly.

During the year ending June 30, 2012, a test of design related to the IT general control environment of the ACCESS system was performed. As part of this review, a number of control deficiencies were identified related to access to program data, change management, and computer operations. As a result of the control deficiencies, a test of operating effectiveness of IT general controls or application controls specific to the TANF program could not be performed. During the period ending June 30, 2014, several inquiries were made with the Department and it was noted that several control deficiencies identified during the review for the year ending June 30, 2012 had not been corrected. As a result, we are unable to test the application controls specific to the TANF program contained within the ACCESS system.

A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-030.

Cause

The cause of the condition as noted above is that the Department relies completely on the ACCESS system and does not perform a sufficient independent review to ensure that the data entered into the ACCESS system is accurate and that the ACCESS system has determined benefit eligibility determinations correctly. Periodic eligibility reviews are performed by the Department in order to ensure continued eligibility for all participants, however the review focuses on a prospective eligibility determination and not a retrospective

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review to see if the prior determination was accurate. In addition, we also noted that there has been a large increase in the caseload being reviewed by the Department, and at the same time, the number of Case Managers that review for eligibility has decreased. We noted that the Department implemented an external quality review process, however during our review of a sample of quality reviews performed, we noted that the documentation of the review was inconsistent and when errors were identified, there was no resolution of the matter documented within the review notes.

Effect

The effect of the condition found is that errors in eligibility or the calculation of a benefit amount could occur and the Department does not have a mechanism in place to timely identify errors made.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its procedures and implement controls to ensure that a quality control review is performed over the eligibility determinations made by the ACCESS system in order to verify that such eligibility determinations are accurate and the benefit payment amounts are appropriate. This would include procedures to ensure that the data entered into the ACCESS system that is used to determine eligibility is accurate and properly supported with external documentation. Procedures should be developed to ensure that all reviews are performed consistently and ensure that errors noted as part of the quality control review are properly resolved. The resolution of the matter should be documented. In addition, we recommend that the Department review the internal control deficiencies related to the ACCESS system identified during the period ending June 30, 2012 and continue to take appropriate actions to ensure that all deficiencies related to access to program data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the ACCESS system.

Management's Response and Corrective Action Plan

ESD will enhance the Supervisory Case review process embedding more checks and balances to ensure that all documents are reviewed and recorded appropriately on the Supervisory Case Review form as follows:

- A formal training of the SCR process, upon revamping, will be held with all supervisors as well as Regional Managers.
- Supervisors will be instructed to track any follow up that is needed and ensure that corrective actions are taken on any discrepancies identified during case review.
- SCR findings will not be saved in the "Y" drive until the SCR is totally complete, meaning that any actions required as follow up have been completed and the case is correct.
- A template will be created for supervisors for tracking purposes.
- Regional Managers will be held accountable to ensure that SCRs are completed timely and accurately.

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- Regional Managers will be required to review a random selection of completed SCRs per month.
- Tracking of the SCRs reviewed by the Regional Manager will be overseen by ESD Operations.

The planned implementation date for the changes outlined above will be two months after the audit and findings are finalized. This date provides ESD with the time needed to enhance the SCR process as well as establish the parameters for the fuel reviews by ESD QA staff.

Scheduled Completion Date of Corrective Action Plan

Completed July 1, 2015

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

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Finding 2014-037

U.S. Department of Health and Human Services

Program Name and CFDA Number

TANF Cluster:

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)

Program Award Number and Year

1402VTTANF 10/1/2013–9/30/2014

1302VTTANF 10/1/2013–9/30/2013

Criteria

The state agency must maintain adequate documentation, verification, and internal control procedures to ensure the accuracy of the data used in calculating work participation rates. In doing so, it must have in place procedures to (a) determine whether its work activities count for participation rate purposes; (b) determine how to count and verify hours of reported work; (c) identify who is a work-eligible individual; and (d) control internal data transmission and accuracy. Each state agency must comply with its Health and Human Services (HHS) approved Work Verification Plan in effect for the period that is audited. HHS may penalize the State by an amount not less than one percent and not more than five percent of the State Family Assistance Grant (SFAG) for violation of this provision (42 USC 601, 602, 607, and 609); CFR sections 261.60, 261.61, 261.62, 261.63, 261.64 and 261.65).

Condition Found

The Vermont Department for Children and Families (the Department) uses a statistical sampling plan to randomly select 100 TANF cases each month as part of the work verification review process. The sample, made up of both on-going two parent family and other family (i.e. single or absent parent) cases are selected during the following calendar month. Each sampled case is verified for accuracy of work or work-related activity hours reported. This verification is done via a match of ACCESS (the State of Vermont's benefit eligibility determination system) hours reported and supporting documentation collected from TANF participants by the district offices (i.e. paystubs, statements from employers, etc.). This match is recorded monthly in a large Excel spreadsheet, noting the match results for each selection, organized by district. During our testwork over work verification process, we noted the following:

- A. For 1 of 40 cases selected for testwork, the hours worked reported in ACCESS did not agree to the supporting documentation provided by the participant. The error was noted by the case manager during their review, however as the review takes place subsequent to the reported month, ACCESS cannot be updated to reflect the actual hours worked.
- B. For 1 of 40 cases selected for testwork, the hours worked reported in ACCESS were rounded down, and therefore did not agree to the supporting documentation provided by the participant. It is the Department's policy to round all hours worked up, so the reported data is inconsistent with other cases reported.

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- C. 1 of 40 cases selected for testwork, lacked documentation to support self-employment profit and expenses. We noted that no documentation was available to support the work hours reported in the ACCESS system.
- D. For 3 of 40 cases selected for testwork, we noted that the hours worked reported in ACCESS agreed to the supporting documentation provided, however the case's work verification review stated that an incorrect number of work hours had been verified.

Cause

The cause of the condition found was primarily due to human error in data entering the data within the ACCESS system or errors within the documentation in the work verification review that took place.

Effect

The effect of the condition found is that inaccurate work hours could be reported by TANF participants, which could further result in an improper calculation of the State's work participation rates, as required for federal reporting.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its existing procedures and controls related to work verification, to ensure that work and work-related activity hours are properly and accurately reported in a consistent manner, to ensure that the Department is compliance with federal regulations.

Management's Response and Corrective Action

A & B – The department agrees with this finding. The reporting and rounding errors are due to human error and work load. The department will take the following actions to ameliorate the condition:

1. At the July 18, 2014 team leader meeting, case management supervisors (Team Leaders) received a written report of errors and how to prevent them. Reach Up staff discussed the errors with team leaders at this meeting. In the past, Reach Up staff addressed trends as they occurred. Beginning in February, 2015, written error reports will be presented quarterly at the team leader meetings. This will ensure that errors are addressed on a regular basis, improvements can be noted, and areas in need of training can be addressed. Team Leaders will be required to address errors and areas in need of clarification/training at subsequent staff meetings.
2. Eligibility supervisors will receive a written report of errors and how to prevent them by February 28, 2015. Supervisors will be required to address the issues at a subsequent staff meeting.

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3. The supervisory report form will be updated to look specifically for rounding issues by February 28, 2015.
4. The Reach Up Quality Assurance Specialist will address errors with specific workers and their supervisors as they arise each month. We currently track errors and the error trends, and address these at statewide meetings with supervisors.

C& D – The department agrees with this finding. Lack of documentation and incorrect case work verification review will be addressed with increased supervision and one on one training with the Reach Up Quality Assurance Specialist. Supervision will include additional review of Verification and Documentation review spreadsheets to ensure that they are completed accurately. The following will be address at weekly meetings with the Quality Assurance Specialist starting in January 2015:

At each meeting:

- a) The QA specialist will have a list available of any errors found from the sample, and any responses to those errors.
- b) The QA specialist will have a list of questions that arise from the month’s review.
- c) The QA specialist’s supervisor will spot check 10 cases in advance of the meeting, and address the results with the QA specialist.
- d) Based on questions and the spot check of cases, targeted “training” will occur at these meeting addressing specific areas needing clarification.

Scheduled Completion Date of Corrective Action Plan

A & B – To be completed by February 28, 2015

C & D FY 14 audit errors have been addressed – completed

Additional review of Verification & Documentation by supervisors and ongoing training – Procedures implemented by January 30, 2015.

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

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Finding 2014-038

U.S. Department of Health and Human Services

Program Name and CFDA Number

Low Income Home Energy Assistance (CFDA #93.568)

Program Award Number and Year

G-14B1VTLIEA 10/1/13–9/30/14

G-13B1VTLIEA 10/1/12–9/30/13

Criteria

Grantees may provide assistance to: (a) households in which one or more individuals are receiving Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), Supplemental Nutrition Assistance Program (SNAP) benefits, or certain needs-tested veterans benefits; or (b) households with incomes which do not exceed the greater of 150% of the state's established poverty level, or 60% of the state median income. Grantees may establish lower income eligibility criteria, but no household may be excluded solely on the basis of income if the household income is less than 110% of the state's poverty level. Grantees may give priority to those households with the highest home energy costs or needs in relation to income (42 USC 8624(b)(2)).

Grantees are required to provide reasonable assurance that only eligible individuals and organizations receive assistance under federal award programs, that subawards are made only to eligible subrecipients, and that amounts provided to or on behalf of eligible individuals or groups of individuals were calculated in accordance with program requirements

Condition Found

The Economic Services Division of the Department for Children and Families (the Department) utilizes the ACCESS system, the State of Vermont's benefit eligibility maintenance system, to determine eligibility for the Low Income Home Energy Assistance Program (LIHEAP). After the eligibility specialist enters financial information into the ACCESS system, ACCESS determines whether or not the applicant is eligible for benefits as well as the amount of benefits the participant is eligible for. The Department does not perform a supervisory review or quality control review over the determinations performed by the ACCESS system in order to ensure that the ACCESS system is operating correctly or that the data entered into the ACCESS system by the eligibility specialist was entered correctly. Instead, the Department relies on the information technology (IT) controls embedded within the ACCESS system.

During the year ending June 30, 2012, a test of design related to the IT general control environment of the ACCESS system was performed. As part of this review, a number of control deficiencies were identified related to access to program data, change management, and computer operations. As a result of the control deficiencies, a test of operating effectiveness of IT general controls or application controls specific to the LIHEAP program could not be performed. During the period ending June 30, 2014, several inquiries were made with the Department and it was noted that several control deficiencies identified during the review for the year ending June 30, 2012 had not been corrected. As a result, we are unable to test the application

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controls specific to the LIHEAP program contained within the ACCESS system. While there were no errors noted within the 40 items selected for testwork, we are unable to conclude that there are adequate controls in place surrounding the eligibility determination process for this program and we were unable to rely on the IT controls due to the control deficiencies.

A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-032.

Cause

The cause of the condition as noted above is that the Department relies completely on the ACCESS system and does not perform an independent review to ensure that the data entered into the ACCESS system is accurate and that the ACCESS system has determined benefit eligibility determinations correctly. In addition, the Department has continued to experience increases in the caseload being reviewed by the State and a reduction in case managers for this program as a whole. We noted that the Department implemented an external quality review process during the current year, however during our review of a sample of quality reviews performed, we noted that the documentation of the review was inconsistent and when errors were identified, there was no resolution of the matter documented within the review notes.

Effect

The effect of the condition found is that errors in eligibility or the calculation of a benefit amount could occur and the Department does not have a mechanism in place to identify errors made.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its procedures and implement controls to ensure that a quality control review is performed over the eligibility determinations made by the ACCESS system in order to verify that such eligibility determinations are accurate and the benefit payment amount is appropriate. This would include procedures to ensure that the data entered into the ACCESS system that is used to determine eligibility is accurate and properly supported with external documentation. In addition, we recommend that the Department review the internal control deficiencies related to the ACCESS system identified during the period ending June 30, 2012 and continue to take appropriate actions to ensure that all deficiencies related to access to program data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the ACCESS system.

Management's Response and Corrective Action Plan

The Department agrees with the finding.

The department does have a Supervisor Case Review (SCR – ESD 242 SCR) guide and form that it uses and has been in place since prior to FY 2013. Unfortunately, the review forms were not properly documented for reviews conducted. Going forward the district supervisors will be instructed to make sure that cases reviewed

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are identified and properly signed off on. Also, the SCR will be noted as to agreement with the data in the ACCESS system.

Scheduled Completion Date of Corrective Action Plan

July 1, 2015

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief, 802-871-3006

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Finding 2014-039

U.S. Department of Health and Human Services

Program Name and CFDA Number

Low Income Home Energy Assistance (CFDA #93.568)

Program Award Number and Year

G-14B1VTLIEA 10/1/13–9/30/14

G-13B1VTLIEA 10/1/12–9/30/13

Criteria

LIHEAP funds may be used to assist eligible households to meet the costs of home energy, i.e., heating or cooling their residences (42 USC 8621(a) and 8624(b)(1)).

Condition Found

During our testwork over fuel benefits paid under the Low Income Home Energy Assistance Program (LIHEAP), we noted the following:

- A. For 2 of 40 participants selected for testwork, the participants used wood as their primary home heating source. As part of the fuel benefit payment process for individuals who utilize wood or wood pellets as their home heating source, the participants receive their benefit in the form of a check, or it is applied to their EBT card. The benefit is applied as a cash benefit, which means there are no restrictions on what the funds are used for. As a result, we are unable to verify that these expenditures were used for allowable costs (i.e. the purchase of wood and wood pellets).
- B. \$49,080 in fuel assistance benefits were paid during the period ending June 30, 2014 to participants that met the monetary eligibility requirement for LIHEAP and were recipients of benefits under 3Squares VT (or the Supplemental Nutritional Assistance Program (SNAP)). While these individuals have met the monetary eligibility requirement for the LIHEAP program, these individuals do not have a heating or cooling liability but instead had an assumed liability. These participants each received a \$3 benefit that was applied to their EBT card. As these participants do not have a heating or cooling liability, the amount paid does not represent an allowable cost.

Cause

The cause of the condition found was that benefit payments for wood and wood pellets are being applied as cash benefits with no restrictions on individuals EBT cards. In addition, the State of Vermont comingles both its federal and state fuel assistance benefits paid. While the amounts paid to individuals who have no heating or cooling liability could have been paid for using state funds only, as both state and federal funds are pooled together, there is no way to ensure that any of these benefits were not paid for using federal funds.

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Effect

The effect of the condition found is that participants may be spending their fuel benefit payments on unallowable expenditures instead of wood and wood pellets. In addition, federal funds may have been used to pay for benefits to individuals that have no heating or cooling liabilities.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

\$49,080 – the amount identified in bullet B above.

Recommendation

We recommend that the Department develop controls and procedures to ensure that benefits are spent on allowable expenditures and federal funds are only used to provide benefits to participants that have a heating or cooling liability.

Management's Response and Correction Action Plan

Finding A – Firewood Benefits

The ESD Fuel & Utility Office agrees with this condition.

The households in question have documented to ESD their fuel liability heating with firewood or wood pellet heat and have been determined eligible to receive a LIHEAP fuel assistance benefit. The State of Vermont through statute however, has decided not to certify firewood or pellet suppliers. Therefore beginning with the FFY2016 fuel season, the ESD Fuel & Utility Office will include in benefit notices to these recipients that they will be required to obtain receipts of their purchases and that they may be randomly selected to show proof of their purchases. A procedure for sampling will be developed and utilized in April each year. Since State funding has recently been eliminated from the program, the issue of co-mingling of funds will no longer exist. If that funding were reinstated in future years, ESD will work with the EBT Director, DCF IT team and DII to put restrictions for fuel benefits on client EBT cards and track expenditures.

Finding B – Nominal \$3 Benefit (aka Heat & Eat)

The ESD Fuel & Utility Office agrees with this condition to the extent that it applies to those participants who are identified as homeless. The amount of questioned costs and potential impact is therefore disputed for a limited number of homeless households.

The one potential group of clients who might be issued a nonallowed Heat & Eat LIHEAP benefit of \$21 are recipients of 3SqsVT who are homeless and do not incur a monthly housing expense. The program managers of Fuel Assistance, 3SqsVT and the ESD Training Chief will develop and issue a formal procedure for Benefit Program Specialists to follow. That procedure will establish that 3SqsVT clients who are homeless must not be issued a \$21 Heat & Eat LIHEAP benefit.

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Scheduled Completion Date of Corrective Action

Finding A – Develop Firewood Benefits sampling procedure:

September 15, 2015

Sample receipts from recipients: April 30, 2016

Finding B – Develop Nominal \$3 Benefit (aka Heat & Eat) procedure:

March 31, 2015

Contacts for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802. 871. 3006

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Finding 2014-040

U.S. Department of Health and Human Services

Program Name and CFDA Number

Foster Care-Title IV-E (CFDA #93.658)

Program Award Number and Year

1401VT1401 10/1/13–9/30/14

1301VT1401 10/1/12–9/30/13

Criteria

Funds may be expended for foster care maintenance payments on behalf of eligible children, in accordance with the agency's foster care maintenance payment rate schedule and in accordance with 45 CFR section 1356.21.

Condition Found

Eligible providers receive a monthly subsidy maintenance payment based on the number of days an eligible child is in their care. The daily rate that the provider is reimbursed is based on the providers training level. The provider is eligible for a higher daily reimbursement rate as more training is received.

During our testwork over monthly subsidy maintenance payments, we noted the following:

- A. For 5 of 40 providers selected for testwork, the providers did not complete the required basic foster care training within the first year of licensure.
- B. For 3 of 40 providers selected for testwork, the providers received a higher daily reimbursement rate as a result of additional training that was received, however there was no documentation maintained within the provider's file to substantiate that they had completed the required additional training. As a result, we were unable to conclude that the daily reimbursement rate for the 7 providers identified above was accurate.

A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-034.

Cause

The cause of the condition found is that the Vermont Department for Children and Families (the Department) does not consistently maintain training records such as an attendance record or certificate of completion within the provider's files to support the training levels earned by its providers. In addition the Department does not consistently follow up with newly licensed foster care providers to ensure basic training is completed.

Effect

The effect of the condition found is that the Department lacks sufficient documentation to substantiate that the provider is being paid the correct daily reimbursement rate.

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The condition found appears to be systematic in nature and is considered to be a material weakness in internal control.

Question Costs

Not determinable.

Recommendation

We recommend that the Department review its controls and procedures to ensure that all training requirements are met, and that adequate documentation exists to validate the provider's training level. We further recommend that the Residential Licensing and Special Investigation Unit within the Department maintain training records in all provider files.

Management's Response and Corrective Action Plan

The department implemented a corrective action plan in May 2014, which addresses this finding going forward. However, cases are still being selected in which payments preceded. Below is a recap of the plan as described and implemented in the previous year:

1. Review and revise Policy 93 on Resource Caregiver Training to include more specific direction on how training is to be documented.
2. Revised Form 690 to require documentation of how training requirements have been met.

Scheduled Completion Date of Corrective Action

Action completed May 2014.

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief, 802-871-3006

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Schedule of Findings and Questioned Costs

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Finding 2014-041

U.S. Department of Health and Human Services

Program Name and CFDA Number

Foster Care-Title IV-E (CFDA #93.658)

Program Award Number and Year

1401VT1401 10/1/13–9/30/14

1301VT1401 10/1/12–9/30/13

Criteria

Title IV-E agencies establish payment rates for maintenance payments (e.g., payments to foster parents, child care institutions or directly to youth). Payment rates may also be established for Title IV-E administrative expenditures (e.g., payments to child placement agencies or other contractors, which may be either subrecipients or vendors) and for other services. Payment rates must provide for proper allocation of costs between Foster Care maintenance payments, administrative expenditures, and other services in conformance with the cost principles. The Title IV-E agency’s plan approved by the Agency for Children and Families (ACF) must provide for periodic review of payment rates for Foster Care maintenance payments at reasonable, specific, time-limited periods established by the Title IV-E agency to assure the rate’s continuing appropriateness for the administration of the Title IV-E program (42 USC 671(a)(11); 45 CFR section 1356.21(m)(1); 45 CFR section 1356.60(a)(1) and (c)).

Condition Found

The Vermont Department for Children and Families (the Department) basis its foster care subsidy maintenance rates off of the published US Department of Agriculture (USDA) costs of raising a child annually. This rate is reviewed annually to see if any modification to the rate needs to be made. The review of the rate is performed by the Department’s management during the annual budget review meetings for the Department.

During our testwork over the approval and review process of foster care subsidy maintenance rates, we were unable to find any formal documentation to support that the process identified above had been performed as part of establishing the rates in place for the year ending June 30, 2014. While there was no formal documentation in place, we did note that as part of our allowability testwork, the rates paid for all 40 subsidy maintenance payments selected for testwork agreed to the approved foster care maintenance rates published for state fiscal year 2014.

Cause

The cause of the condition found is that the Department does not have written documentation in place within its Foster Care State Plan or its policy and procedure manual that discusses how foster care subsidy maintenance rates are established and how frequently the rates are to be reviewed. In addition, there does not appear to be any formal documentation over the review process of the rates or the final approval of the rates that are to be used annually.

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Effect

The effect of the condition found is that foster care maintenance rates used may not be appropriate for the administration of the foster care program

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its existing policies and procedures for administering the program and ensure that there are written procedures in place for the periodic review and approval of foster care maintenance rates that are used. The procedures should ensure that the review and approval of the rates to be used is sufficiently documented to support that the rates in place are accurate and reasonable.

Management's Response and Corrective Action Plan

The department agrees with this finding and we will develop an internal protocol and document the annual review process. Foster care rates are reviewed annually as part of the budget building process and the rates are documented each year. A Federal audit of the Title IV-E Foster Care program in May 2014 resulted in no deficiencies in this area.

Scheduled Completion Date of Corrective Action

3/1/2015

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief, 802-871-3006

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Finding 2014-042

U.S. Department of Health and Human Services

Program Name and CFDA Number

Adoption Assistance (CFDA #93.659)

Program Award Number and Year

1301VT1407 10/1/12–9/30/13

1401VT1407 10/1/13–9/30/14

Criteria

Adoption assistance subsidy payments cannot exceed the foster care maintenance payment the child would have received in a foster family home; however, the amount of the subsidy payments may be up to 100 percent of the foster care maintenance payment rate (42 USC 673(a)(3)).

Condition Found

During our testwork over adoption assistance monthly subsidy payments, we noted the following:

- A. For 8 of 40 adoption subsidy payments selected for testwork, the adoption subsidy agreement daily rate was greater than the foster care subsidy daily rate at the time the original adoption subsidy agreement went into effect. There was no documentation maintained within the case file to support why the amount was higher.
- B. For 3 of 40 adoption subsidy payments selected for testwork, the child's file showed an increase in the adoption subsidy daily rate but there was no supporting documentation to support that the foster care daily subsidy rate at the time and that the new adoption subsidy rate was not greater than the foster care rate.

A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-036.

Cause

The cause of the condition found is primarily due to insufficient procedures to ensure that the approved and modified adoption subsidy daily rates are not greater than the Foster Care subsidy daily rate and if the amount is, documentation to support why the amount is appropriate.

Effect

The effect of the condition found is that the adoption subsidy rate used may not be allowable under federal regulations.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

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Questioned Costs

Not determinable.

Recommendation

We recommend the Vermont Department for Children and Families (the Department) review its procedures to ensure adoption subsidy daily rates contained within the adoption subsidy agreements are not greater than the foster care daily rates at the time the agreement is entered into. In addition we recommend that the Department maintain supporting documentation within the adoption subsidy file to supporting any changes made to the adoption subsidy daily rate and ensure that the updated rate is not greater than the foster care daily rate at the time the change is implemented.

Management's Response and Corrective Action Plan

We disagree with the first finding (Condition A). It is permissible for the current rate to be higher than the foster care rate that was in effect at the time the child was adopted, assuming that the agreement was amended. However, to address both findings (Conditions A & B), we will do the following:

1. Create a form to document the foster care rate for the relevant time period and
2. Amend Policy 193 on Adoption Subsidy to provide greater specificity about the criteria for consideration of the rate.

Scheduled Completion Date of Corrective Action Plan

1/31/2015

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

Rejoinder

As documented above, we noted that the Department does not maintain documentation to support why a rate would be higher than the existing foster rate either at the time of the original adoption subsidy agreement is entered into or when there is a subsequent increase in the rate.

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Finding 2014-043

U.S. Department of Health and Human Services

Program Name and CFDA Number

Social Service Block Grant (CFDA #93.667)

Program Award Number and Year

G 1301VTSOSR 10/1/12–9/30/14

G 1201VTSOSR 10/1/11–9/30/13

Criteria

The State shall use all of the amount transferred from Temporary Assistance for Needy Families (TANF) (CFDA 93.558) only for programs and services to children or their families whose income is less than 200 percent of the official poverty guideline as revised annually by Health and Human Services (HHS) (42 USC 604(d)(3)(A) and 9902(2)).

Condition Found

During the year ending June 30, 2014, the Vermont Department for Children and Families (the Department) transferred approximately \$4.7 million of TANF funding to the Social Services Block Grant (SSBG) program. To ensure that the transferred TANF funds are used in accordance with federal requirements, the Department relies on “Income Check” reports from both the SSMIS (used to track costs incurred on behalf of children in state custody such as for the Foster Care program) and BFIS systems (used to track child care subsidy costs). From these reports, the Department only uses costs incurred for children and families whose income is below 200% of the federal poverty level as part of the costs used to account for the transfer of TANF funds into the program. During our testwork over the Income Check reports, we noted the following:

- A. When reviewing the Income Check report generated from the SSMIS system for completeness and accuracy, we noted that the report contained a formula error related to the income level for families with a size of two. As a result, families over 200% of the official poverty level were included in the calculation for the TANF transfer. As the Department had additional expenditures to cover the TANF transfer, the error did not affect compliance with the federal requirement.
- B. When reviewing the Income Check report generated from the BFIS system for completeness and accuracy, we noted that all income for each family included within the report was twice the actual income that was reported within the BFIS system, and as such, the report was inaccurate. As the Department, had additional expenditures to cover the TANF transfer, the error did not affect compliance with the federal requirement.

A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-037.

Cause

The cause of the condition found is that the Department does not review the accuracy of IT generated reports used to support the amounts to be included within the TANF transfer.

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Effect

The effect of the condition found is that the reports could include errors that result in costs being allocated to SSBG program paid for under the TANF transfer that are not allowable under federal regulations as they were paid for participants that had incomes that exceeded 200% federal poverty level.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department develop procedures to ensure that the reports used to assist in tracking costs allocated to the TANF transfer are accurate.

Management's Response and Corrective Action Plan

- A.) The Department agrees with this condition. IT staff will review and correct the program generated from the BFIS system so that only families under the 200% poverty level are identified in the "Income Check" report. The Child Care Division Operation Administrator will review the report for quality control at the end of the year to ensure that the TANF transfer covers the qualifying individuals and that the programming is working.
- B.) The Department agrees with this condition. IT staff will review and correct the program generated from the SSMIS system so that there is no duplication of information and that only families under the 200% poverty level are identified in the "Income Check" report. The DCF Business Office Financial Administrator III will review the report for quality control at the end of the year to ensure that the TANF transfer covers the qualifying individuals and that the programming is working.

Scheduled Completion Date of Corrective Action Plan

Review and correct programming for reports – May 31, 2015

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief, 802-871-3006

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Finding 2014-044

U.S. Department of Health and Human Services

Program Name and CFDA Number

Social Service Block Grant (CFDA #93.667)

Program Award Number and Year

G 1301VTSOSR 10/1/12–9/30/14

G 1201VTSOSR 10/1/11–9/30/13

Criteria

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS) and report subaward data through FSRS. Subawards are to be reported no later than the last day of the month following the month in which the subaward/subaward amendment obligation was made or the subcontract award/subcontract modification was made.

Condition Found

The Vermont Agency of Human Services (the Agency) has entered into agreements with third party organizations through the use of a procurement grant. In accordance with its approved contracting plan, the Agency is allowed to enter into a grant in accordance with the State of Vermont subrecipient monitoring policy contained within State of Vermont Bulletin 5.5 (Bulletin 5.5), *Policy for Issuing Grants for State Funds*, for items that may traditionally be entered into using a contract. The Agency considers the procurement grant to be a contract with a vendor and does not consider it to be a traditional subrecipient grant (or a subaward).

During our testwork over procurement grants, we selected a sample of 5 procurement grants and noted the following:

- A. For 4 of 5 procurement grants, the Agency bundled services for this program with other services provided under several federal programs on behalf of the Agency. The Agency used a grant agreement to enter into these arrangements and the entities providing the services are referred to as Designated Agencies or DAs. Contained within each DA agreement were services to be rendered as part of Social Services Block Grant. Services to be provided on behalf of the Social Services Block Grant program related to service planning and support considerations and clinical interventions for recipients with developmental disabilities. While grant agreements were used to enter into the procurement grants and the agreements themselves were called grant agreements, the Agency indicated that it did not consider the procurement grants to represent a subrecipient relationship but rather a vendor relationship and therefore was not subject to FFATA reporting. In accordance with 2 CFR 170, Requirements for Federal Funding Accountability and Transparency Act Implementation, if the state provides funds to a third party to carry out a type of service that is authorized under a program and the state otherwise might deliver itself, the agreement is a subaward because the third party is carrying out substantive programmatic activity that is the purpose of the federal award. Given the nature of the agreement and

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the services to be rendered under it, it appears that the DA agreements are subawards under 2 CFR 170 and as such should have been reported for FFATA purposes.

- B. For 1 of 5 procurement grants, the Agency entered into a grant for legal services to be rendered on behalf of the Agency. While grant agreement was used to enter into the procurement grant and the agreement itself was called a grant agreement, the Agency indicated that it did not consider the procurement grant to represent a subrecipient relationship but rather a vendor/contractor relationship and therefore was not subject to FFATA reporting. In accordance with 2 CFR 170, Requirements for Federal Funding Accountability and Transparency Act Implementation, if the state provides funds to a third party to carry out a type of service (such as mental health services) that is authorized under a program and the state otherwise might deliver itself, the agreement is a subaward because the third party is carrying out substantive programmatic activity that is the purpose of the federal award. Given the nature of the agreement and the services to be rendered under it, it appears that the agreement is a subaward under 2 CFR 170 and as such should have been reported for FFATA purposes.

A similar finding was noted as part of the June 30, 2013 single audit and was reported as Finding 2013-038.

Cause

The cause of the condition found is that the Agency as a whole does not have any policies or procedures in place to make vendor and subrecipient determinations and when the determination is made, there is no documentation to support the rationale behind the determination. The agreements entered into are unclear and inconsistently used. The agreements do not consistently identify the award as either a vendor or subrecipient (all 5 of the agreements reviewed referred to the agreement as a grant agreement) and may contain elements of both relationships. As a result, the Agency has not reviewed each of these agreements to determine whether or not they meet the criteria for being a reportable subaward for FFATA reporting purposes.

Effect

The effect of the condition found is the Agency may have entered into agreements that are reportable transactions for FFATA reporting purposes and has not filed the required reports.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Agency develop policies and procedures for entering into procurement grants and determine whether or not the agreements represent a vendor/contract relationship or a subrecipient relationship on a case by case basis and that the determination is properly documented and approved prior to entering into the agreement. Policies and procedures should be developed to ensure that all procurement grants consistently identify the nature of the funding relationship as either a vendor/contract or subrecipient relationship so that the grantee is aware of the determination. The Agency should review 2 CFR 170 and

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ensure it has properly reported all subawards as required for FFATA reporting purposes and develop procedures for documenting its conclusions on which procurement grant is required to be reported.

Management's Response and Corrective Action Plan

- A. The Department concurs that these agreements include bundled services and that they are carrying out substantive program activity as defined under 2 CFR 170, Requirements for FFATA Implementation. They also represent two types of relationships – subrecipient and vendor/contractor. These relationships are evidenced in part by two types of payment mechanisms – grants and fee – for – services. Going forward, the grant portion of the DA agreements shall be identified and treated as grant payments to a Sub-recipient. The agreement shall clearly segregate the grant payments from the fees-for service payments, identify federal program requirements, include CFDA and DUNS number, and be reported as required by FFATA.

The Department shall also develop procedures for all of its grant agreements to make a determination as to whether an agreement is considered to be a subrecipient, procurement of services, or a combination of both. The Department will maintain documentation to support the rationale. The new Agency of Administration Bulletin 5 shall serve as the policy for subrecipient and procurement of services determination.

- B. The Department concurs that this agreement was called a grant and was lacking clarity as to the relationship with the state. It does not agree that the legal services provided by this agreement are substantive program activities, per 2 CFR 170, Requirements for FFATA Implementation. The purpose of the Social Service Block Grant is to “furnish social services”. The purpose of this agreement was to provide targeted legal services to individuals receiving social services which are the goal of the Social Service Block Grant. They are not in themselves the prime purpose of the SSBG award and are considered auxiliary to the program. The Department is therefore not required to report it for FFATA purposes. To address the confusion, the Department has changed the agreement from a procurement grant form to a standard contract form in current year and for going forward will continue to do so.

Completion Date of Corrective Action Plan

- A. Develop procedures for determination of agreement relationships – April 1, 2015
Agreements to be rewritten in Sub-recipient form – June 30, 2015
Agreements to be reported in FSRS – 30 days after the end of month of agreement execution.
- B. Agreements rewritten in contract form. – Completed FY 15.

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief, 802-871-3006

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Finding 2014-045

U.S. Department of Health and Human Services

Program Name and CFDA Number

Social Service Block Grant (CFDA #93.667)

Program Award Number and Year

G 1301VTSOSR 10/1/12–9/30/14

G 1201VTSOSR 10/1/11–9/30/13

Criteria

A pass-through entity is responsible for determining whether an applicant for a subaward has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before award (2 CFR section 25.110 and Appendix A to 2 CFR part 25).

A pass-through entity is responsible for (1) ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's fiscal year-end; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipients audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.

Condition Found

During our testwork over subrecipient monitoring, we noted the following:

- A. For 1 of 5 subrecipients selected for testwork, the Department did not have a DUNS number on file for the subrecipient.
- B. For 1 of 5 subrecipients selected for testwork, the subrecipient was not listed in the State of Vermont's VISION grant tracking module even though it had executed grants with the Vermont Agency of Human Services (the Agency), and as a result the Agency could not be determine if the subrecipients had an A-133 audit.

Cause

The cause of the condition found is primarily the result of insufficient supervisory controls to ensure the adequacy of grant award documents and proper tracking within the VISION grant tracking module.

Effect

The effect of the condition found is that grants may not be properly tracked to determine whether or not they need to have an A-133 audit performed and incomplete information may be obtained from the grantee prior to entering into the executed grant agreement.

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The condition found appears to be systemic in nature and is considered a significant deficiency in internal controls.

Questioned Costs

None.

Recommendation

We recommend that the Agency review its granting procedures to ensure that grant awards are accurately executed. We also recommend that the Agency review its subrecipient monitoring procedures and implement the necessary policies and procedures to help ensure that subrecipients are monitored in accordance with federal regulations.

Management's Response and Corrective Action

Section A. The agency disagrees with this condition. The DUNS number had not been kept on file due to the fact that the agreement is considered a procurement grant (contract in grant form) and not a sub-award. The agreement is for legal aid services for individuals who receive social services under the SSBG. Its purpose is therefore supportive and is not the prime purpose of the SSBG program which is social services. Per 2 CFR 170, a lower tier transaction with a different purpose than the prime tier transaction is a procurement. Thus, the DUNS number is not a requirement. The agreement did inadvertently include the term subrecipient but this is not a determinate of the relationship of the agreement and is considered a procedural error.

Section B. The agency disagrees with this condition. The agreement was entered into the VISION Subgrant Tracking System Module on 09/25/2013. Due to the fact that the agreement is considered procurement and not subject to an A-133 audit, the A-133 box and FFATA box are manually unchecked in VISION. The reason for being considered a procurement is given above in Section A.

Scheduled Completion Date of Corrective Plan

- A) No corrective action required.
- B) No corrective action required.

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

Rejoinder

The Vermont Agency of Human Services (the Agency) has entered into agreements with third party organizations through the use of a procurement grant. In accordance with its approved contracting plan, the Agency is allowed to enter into a grant in accordance with the State of Vermont subrecipient monitoring policy contained within State of Vermont Bulletin 5.5, *Policy for Issuing Grants for State Funds*, for items that may traditionally be entered into using a contract. The Agency considers the procurement grant to be a contract with a vendor and does not consider it to be a traditional subrecipient grant (or a subaward).

The Agency as a whole does not have any policies and procedures in place to make vendor and subrecipient determinations and when the determination is made, there is no documentation to support the rationale

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behind the determination. The agreements entered into are unclear and inconsistently used. The agreements referred to above in bullets A and B were referred to as a grant agreement and appeared to contain elements to support that the agreement was a subrecipient grant and not a contract with a vendor.

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Finding 2014-046

U.S. Department of Health and Human Services

Program Name and CFDA Number

Social Service Block Grant (CFDA #93.667)

Program Award Number and Year

G 1301VTSOSR 10/1/12–9/30/14

G 1201VTSOSR 10/1/11–9/30/13

Criteria

Services provided with Social Services Block Grant (SSBG) funds may include, but are not limited to, child care services, protective services for children and adults, services for children and adults in foster care, services related to the management and maintenance of the home, day care services for adults, transportation services, family planning services, training and related services, employment services, information, referral, counseling services, the preparation and delivery of meals, health support services, and appropriate combinations of services designed to meet the special needs of children, the aged, the mentally retarded, the blind, the emotionally disturbed, the physically handicapped, and alcoholics and drug addicts (42 USC 1397a(a)). Uniform definitions for these services are included in Appendix A to 45 CFR part 96 – Uniform Definitions of Services.

Condition Found

We noted that for 1 of 25 payments selected for testwork, the services incurred were paid under an executed grant agreement. We reviewed the grant agreement, noting that it was funded with Medicaid Global Commitment federal funds and did not include any Social Service Block Grant federal fund information. As a result, this payment was not properly executed in line with the grant agreement, and should not have been paid with federal Social Service Block Grant funds.

The Vermont Agency of Human Services (the Agency) entered into the agreement above with the third party organization through the use of a procurement grant. In accordance of its approved contracting plan, the Agency is allowed to enter into a grant in accordance with the State of Vermont subrecipient monitoring policy contained within State of Vermont Bulletin 5.5 (Bulletin 5.5), *Policy for Issuing Grants for State Funds*, for items that may traditionally be entered into using a contract. The Agency considers the procurement grant to be a contract with a vendor and does not considered it to be a traditional subrecipient grant (or a subaward).

For the payment identified in the first paragraph, we noted the Department indicated that the grant selected above was a procurement grant and therefore was a contract for services. As such, the federal funding source did not need to be included in the procurement agreement and the cost could be charged to the SSBG program. Per review of the agreement, the procurement grant was for intensive family based services, which are family focused, community based crisis intervention services designed to maintain children safely in their homes and prevent the unnecessary separation of families. The agreement contained specific performance measures that are required to be met as a condition of funding and appears to be requesting

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services that are part of a program to be operated on behalf of the program and the State. The agreement appears to represent a subrecipient relationship and not a contract. As such, we are unable to conclude that the amount should have been charged to the Social Services Block Grant as this source of funding was not outlined within the grant agreement.

Cause

The cause of the condition found is that the Department and the Agency as a whole does not have adequate policies or procedures in place to make vendor and subrecipient determinations and when the determination is made, there is no documentation to support the rationale behind the determination. The agreements entered into are unclear and inconsistently used. The agreements do not consistently identify the award as either a vendor or subrecipient (this particular agreement reviewed referred to the agreement as a grant agreement) and may contain elements of both relationships.

Effect

The effect of the condition found is the Department may have charged expenditures to a federal program that was not allowable under the subrecipient grant that was entered into.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department develop policies and procedures for entering into procurement grants and determine whether or not the agreements represent a vendor/contract relationship or a subrecipient relationship on a case by case basis and that the determination is properly documented and approved prior to entering into the agreement. Policies and procedures should be developed to ensure that all procurement grants consistently identify the nature of the funding relationship as either a vendor/contract or subrecipient relationship so that the grantee is aware of the determination.

Management's Response and Corrective Action Plan

The Department contends that the agreement cited by the auditor was properly executed in line with the intent and terms of the agreement, but concedes that it may not have been clear enough about the relationship. The agreement was written to be a contract in grant form (procurement grant) and was not considered a subrecipient. To avoid future confusion, the Department will develop policies and procedures for making vendor and subrecipient determinations and document the relationship. The Department will strive for consistent identification in the agreements thereafter.

Completion Date of Corrective Action Plan

Develop policy and procedures for determination of agreements. – April 1, 2015

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Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief, 802-871-3006

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Finding 2014-047

U.S. Department of Health and Human Services

Program Name and CFDA Number

Children's Health Insurance Program (CFDA #93.767)

Program Award Number and Year

7540515 7/1/13-6/30/14

Criteria

Generally, a state may not cover children with higher family income without covering children with a lower family income, nor deny eligibility based on a child having a preexisting medical condition. States are required to include in their state plans a description of the standards used to determine eligibility of targeted low-income children. State plans should be consulted for specific information concerning individual eligibility requirements (42 USC 1397bb(b)).

Grantees are required to provide reasonable assurance that only eligible individuals and organizations receive assistance under federal award programs and that amounts provided to or on behalf of eligible individuals or groups of individuals were calculated in accordance with program requirements

Condition Found

During testwork over the eligibility and allowability related to participant health claims paid by Children's Health Insurance Program (CHIP), we noted the following:

- A. For 1 of 40 cases selected for testwork, the expenditure paid was on behalf of an adult that exceeded the age limit for the program and was therefore ineligible to receive CHIP benefits. Per review of the individual's history in the State of Vermont's benefit eligibility maintenance system determination or the ACCESS system, we noted that the individual was formerly receiving Catamount Health Assistance Program (CHAP) benefits, which is a Medicaid code, and should not be paid under the CHIP program.
- B. For 1 of 40 cases selected for testwork, the benefit eligibility specialist had used an incorrectly calculated amount of monthly self-employment income when determining the participant's program eligibility. We noted that the monthly self-employment income used was as higher than it should have been, resulting in the participant paying higher premiums than was necessary.
- C. For 3 of 40 cases selected for testwork, all 3 cases had Federal Poverty Level (FPL) percentages below the allowable threshold amount for CHIP. We noted that within ACCESS these individuals were coded as being Medicaid participants, however their claims were paid for using CHIP funds.

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A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-039.

Cause

The cause of the condition as noted above is that the Department relies on the ACCESS system and does not perform an independent review to ensure that the data entered into the ACCESS system is accurate and that the ACCESS system has determined benefit eligibility determinations correctly. Periodic eligibility reviews are performed by the Department in order to ensure continued eligibility for all participants, however the review focuses on a prospective eligibility determination and not a retrospective review to see if the prior determination was accurate. In addition, the Department has continued to experience increases in the caseload being reviewed by the State and a reduction in case managers for this program as a whole.

Effect

The effect of the condition found is that errors in eligibility determinations could occur and the Department does not have a mechanism in place to identify errors made.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

\$1,869 related to items A and C above.

Recommendation

We recommend that the Department review its procedures and implement controls to ensure that a quality control review is performed over the eligibility determinations made by the ACCESS in order to verify that such eligibility determinations are accurate. This would include procedures to ensure that the data entered into the ACCESS system that is used to determine eligibility is accurate and properly supported with external documentation.

Management's Response and Corrective Action Plan

The Department agrees with finding and the recommendation.

A, B, & C – These errors are the result of workload and human error. Corrections to these cases will be done immediately.

Scheduled Completion Date of Corrective Action Plan

Correction to case errors identified. Immediately

Review of procedures and controls will be completed by June 30, 2015.

Implementation of new Integrated Eligibility System for Health Exchange – 2017

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

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Finding 2014-048

U.S. Department of Health and Human Services

Program Name and CFDA Number

Children's Health Insurance Program (CFDA #93.767)

Program Award Number and Year

7540515 7/1/13–6/30/14

Criteria

Generally, a state may not cover children with higher family income without covering children with a lower family income, nor deny eligibility based on a child having a preexisting medical condition. States are required to include in their state plans a description of the standards used to determine eligibility of targeted low-income children. State plans should be consulted for specific information concerning individual eligibility requirements (42 USC 1397bb(b)).

Grantees are required to provide reasonable assurance that only eligible individuals and organizations receive assistance under federal award programs, and that amounts provided to or on behalf of eligible individuals or groups of individuals were calculated in accordance with program requirements

Condition Found

The Economic Services Division of the Department for Children and Families (the Department) utilizes the ACCESS system, the State of Vermont's benefit eligibility maintenance system, to determine eligibility for the Children's Health Insurance Programs (CHIP). After the eligibility specialist data enters financial information into the ACCESS system, ACCESS determines whether or not the applicant is eligible for benefits as well as the amount of benefits the participant is eligible for. The Department does not perform a supervisory review or quality control inspection review over the determinations performed by the ACCESS system in order to ensure that the ACCESS system is operating correctly or that the data entered into the ACCESS system by the eligibility specialist was data entered correctly. Instead, the Department relies on the information technology (IT) controls embedded within the ACCESS system.

During the year ending June 30, 2012, a test of design related to the IT general control environment of the ACCESS system was performed. As part of this review, a number of control deficiencies were identified related to access to program data, change management, and computer operations. As a result of the control deficiencies, a test of operating effectiveness of IT general controls or application controls specific to the CHIP program could not be performed. During the period ending June 30, 2014, several inquiries were made with the Department and it was noted that several control deficiencies identified during the review for the year ending June 30, 2012 had not been corrected. As a result, we are unable to test the application controls specific to the CHIP program contained within the ACCESS system and are unable to conclude that there are adequate controls in place surrounding the eligibility determination process for this program and we are unable to rely on the IT controls due to the control deficiencies.

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A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-039.

Cause

The cause of the condition as noted above is that the Department relies on the ACCESS system and does not perform an independent review to ensure that the data entered into the ACCESS system is accurate and that the ACCESS system has determined benefit eligibility determinations correctly. Periodic eligibility reviews are performed by the Department in order to ensure continued eligibility for all participants, however the review focuses on a prospective eligibility determination and not a retrospective review to see if the prior determination was accurate. In addition, the Department has continued to experience increases in the caseload being reviewed by the State and a reduction in case managers for this program as a whole.

Effect

The effect of the condition found is that errors in eligibility determinations could occur and the Department does not have a mechanism in place to identify errors made.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its procedures and implement controls to ensure that a quality control review is performed over the eligibility determinations made by the ACCESS in order to verify that such eligibility determinations are accurate. This would include procedures to ensure that the data entered into the ACCESS system that is used to determine eligibility is accurate and properly supported with external documentation. In addition, we recommend that the Department review the internal control deficiencies related to the ACCESS system identified during the period ending June 30, 2012 and continue to take appropriate actions to ensure that all deficiencies related to access to program data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the ACCESS system.

Management's Response and Corrective Action Plan

The Department agrees with finding and the recommendation.

The Department will bring these issues to the attention of supervisors so they can discuss it with eligibility workers. Procedures will be reviewed and accuracy of eligibility will be verified. New worker and refresher trainings will be done to emphasize the need for accuracy in data entry and eligibility determination. Legal and program administration staff are also reviewing health care eligibility procedures. The Department expects to replace our 30+ year old Legacy System with a new Integrated Eligibility System (IES) to be operational by 2017. Staff have already been hired to develop it. The new IES is being developed for the new Health Insurance Exchange and federal health care reform in incremental stages. Once the fully developed IES is functional, the enhanced eligibility system is expected to catch prevent this type of worker error.

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Scheduled Completion Date of Corrective Action Plan

Correction to case errors identified. Immediately

Review of procedures and controls will be completed by June 30, 2015.

Implementation of new Integrated Eligibility System for Health Exchange – 2017

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-30063

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Finding 2014-049

U.S. Department of Health and Human Services

Program Name and CFDA Number

Children's Health Insurance Program (CFDA #93.767)

Program Award Number and Year

7540515 7/1/13-6/30/14

Criteria

Program income is gross income received that is directly generated by the federally funded project during the grant period. If authorized by federal regulations or the grant agreement, costs incident to the generation of program income may be deducted from gross income to determine program income. Program income includes, but is not limited to, income from fees for services performed, the use or rental of real or personal property acquired with grant funds, the sale of commodities or items fabricated under a grant agreement, and payments of principal and interest on loans made with grant funds. Except as otherwise provided in the federal awarding agency regulations or terms and conditions of the award, program income does not include interest on grant funds (covered under Cash Management), rebates, credits, discounts, refunds, etc. (covered under Allowable Costs/Cost Principles), or interest earned on any of them (covered under Cash Management). Program income does not include the proceeds from the sale of equipment or real property (covered under Equipment and Real Property Management).

Condition Found

During our testwork over the program income collection process for Children's Health Insurance Program (CHIP), we noted that for 2 of 40 participants selected for testwork no evidence was available to support that the participants had paid their required premium. We noted that in both instances, the cases had been closed and then reinstated in the month selected without a lapse in coverage. We noted that neither case had premium payments for the month selected following reinstatement, however due to system limitations; we could not ascertain if premium payments were collected prior to closure.

Cause

The cause of the condition as noted above is that the Vermont Department for Children and Families (the Department) closes and then reinstates cases without a lapse in coverage. Once a case has been closed, the State cannot see premium payment activity preceding that point in time, making it difficult to track premium payments for cases that are closed and reinstated, without a lapse in coverage.

Effect

The effect of the condition found is that premiums payments may not be collected for months in which coverage was provided; the State may be providing coverage to individuals who have not paid the required premiums.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

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Questioned Costs

None.

Recommendation

We recommend that the Department review its procedures and implement controls to ensure that premiums payments are properly accounted for and received, as required. Furthermore, we recommend that additional documentation be maintained for cases that are closed and reinstated without a lapse in coverage to better track and enforce the payment of premiums.

Management's Response and Corrective Action Plan

The Department agrees with the finding.

Procedures and controls for addressing premium payments will be reviewed and modified to include additional documentation for cases closed and reinstated without a lapse in coverage. Training will be done to ensure that staff properly document cases for fixes and exceptions so that there is a very clear audit trail of why they were done.

Scheduled Completion Date of Corrective Action Plan

April 30, 2015

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

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Finding 2014-050

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Healthcare Providers and Suppliers (Title XVIII) Medicare (CFDA #93.777)

Medical Assistance Program (Medicaid; Title XIX) (CFDA #93.778)

Program Award Number and Year

11-W-00194/1 1/1/11–12/31/16

11-W-00191/6 10/1/10–9/30/15

75X0512 10/1/10–6/30/14

Criteria

Eligibility for Individuals

The State Medicaid agency or its designee is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plan (42 CFR section 431.10).

There are specific requirements that must be followed to ensure that individuals meet the financial and nonfinancial requirements for Medicaid. These include that the State or its designee shall:

- (1) Accept an application submitted online, by telephone, via mail, or in person and include in each applicant's case records facts to support the agency's decision on the application (42 USC 1320b-7(d); 42 CFR sections 435.907 and 435.913).
- (2) Request information from other agencies in the State and other State and Federal programs to the extent that such information is useful in verifying the financial eligibility of an individual. If information provided by or on behalf of an individual is reasonably compatible with information obtained from the electronic data sources, then the agency must determine or renew eligibility based on such information and may not require the individual to provide any further documentation. If the information is not reasonably compatible, then the agency must provide the individual with a reasonable period of time to explain the discrepancy or furnish additional information (42 CFR sections 435.948 and 435.952).

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- (3) Require, as a condition of eligibility, that each individual seeking Medicaid furnish his or her Social Security number (SSN). This requirement does not apply if the individual (a) is not eligible to receive an SSN, (b) does not have an SSN and may be issued an SSN only for a valid nonwork reason, or (c) because of well-established religious objections, refuses to obtain a SSN. In redetermining eligibility, if the case record does not contain the required SSN, the agency must require the recipient to furnish the SSN (42 USC 1320b-7(a)(1); 42 CFR sections 435.910 and 435.920).
- (4) Verify each SSN of each applicant and recipient with SSA to ensure that each SSN furnished was issued to that individual and to determine whether any others were issued (42 CFR sections 435.910(g) and 435.920).
- (5) Verify and document the citizenship and immigration status of each applicant (42 USC 1320b-7d).

Condition Found

We selected 65 participants for testing of eligibility requirements and noted the following internal control deficiencies:

- A. In 1 instance, the Medicaid participant had an eligibility code of “WD” within ACCESS, the State’s benefit eligibility management system, which is a Home and Community Based waiver code. There was no support to illustrate that this individual was eligible for TBI, and it was later confirmed that the individual was in fact not eligible and should have been assigned a different eligibility code under Medicaid.
- B. In 7 instances, the Medicaid participant was identified as a U.S. citizen within ACCESS; however, their citizenship was not supported by a citizenship code and there was no documentation in the file that the citizenship status was confirmed. As a result, we were unable to determine whether or not this participant met the eligibility requirements for this program.
- C. In 1 instance, the Medicaid participant was eligible for Medicaid under the Katie Beckett provisions. Under these provisions eligibility is determined, in part, by a physician who provides information regarding the child’s disability including denoting an eligibility review date for the claimant. When reviewing the eligibility form filled out by the physician, we noted that there was no eligibility review date noted and as a result there was no support for the review date entered into the ACCESS system. Accordingly, we were unable to ensure that this individual was properly reviewed for this eligibility criteria.
- D. In 1 instance, the Medicaid participant was assigned a transitional Medicaid category code. Transitional Medicaid has four criteria that need to be met for each individual. We noted that this individual did not meet all required criteria, as such they are not eligible for this category code; however should have been assigned under a different eligibility code.
- E. In 1 instance, the Medicaid participants had an eligibility code of “A9” within ACCESS, which is cash assistance for SSI/AABD blind/disabled children. The participant was over the age of 18 and should have been assigned under a different eligibility code.

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A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-043.

Cause

The cause of the condition noted above can be attributed to human error. It does not appear that there are adequate controls in place to ensure that the proper information is obtained to support an applicant's eligibility for Medicaid.

Effect

The effect of the condition found is that the Department of Children and Families maintains inaccurate or inconsistent information within its case files to support eligibility determinations. This incorrect information is then used to erroneously support an applicant's eligibility for Medicaid. If the State were to provide benefits to ineligible applicants, it would incur unallowable costs.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review its procedures over obtaining and validating documentation reported by applicants, as it is used to determine Medicaid eligibility. This process of review would ensure that all information is correct, thus supporting an applicant's eligibility. The collection and verification of accurate information would make certain that the State is in compliance with all federal regulations.

Management's Response and Corrective Action

The Department agrees with the finding.

- A. This coding error is attributed to human error and has been corrected. LTC worker training will be done to emphasize support for coding.
- B. All of these cases were fixed with the exception of one. New processes have been implemented to ensure all client citizenship is verified and documented.
- C. This case was corrected. Disability Determination Services (DDS) failed to put a review date on the form. AOP's contacted DDS about this issue. DDS advised that their procedures did require the date to be on the form. DDS will remind their staff to review this procedure.
- D. This coding error is attributed to human error and has been corrected. Staff will continue to be trained for coding.
- E. A daily edit was missed for critical age change. The Department will include this issue in a refresher training for workers around accurate and timely processing of daily edits.

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The Department will review the procedures provided to workers regarding verification standards to include when to request additional verification, what verification to request and what is acceptable verification to use. There is currently a Verification Plan developed for HAEU that is pending CMS approval. Upon approval this will be the designated plan for Medicaid and workers will be trained upon its use and be provided it to use as a desk aid. Since the time of the previous audit, the Department has consolidated healthcare eligibility processing to one unit which will provide a more consistent approach to verification and the training of such verification standards. The Department's current control measure is the Quality Control unit which conducts reviews of Medicaid. For FY 2014, CMS has directed all states to conduct reviews through pilot projects. Vermont's plan is currently pending approval; upon approval reviews of MAGI Medicaid will begin. Deficiencies discovered in these reviews will be shared with the Department's Health Care processing unit (HAEU) for follow up and training.

Scheduled Completion Date of Corrective Plan

- Review of policies, procedures, and training regarding verification will be conducted by 6/30/2015.
- Review of cases by QC for the first reporting period (10/14-3/15) will be completed and reported by 6/30/2015 to CMS, HAEU Management and Department Management.
- Correction of any remaining cases in error will be completed by 6/30/15.
- Integration of Verification Plan is dependent upon CMS approval.

Contact for Corrective Action Plan

Michele Betit, HAEU 802-769-6500

Rob Roberts, AHS Audit Chief 802-871-3006

Rejoinder

Management notes above that their "current control measure is the Quality Control unit which conducts reviews of Medicaid;" however due to the implementation of the MAGI eligibility rules and Federal guidance to conduct quality control reviews through pilot projects we note that the quality control function was very limited during fiscal 2014 and as such was not an effective compensating control for the internal control deficiencies noted. The Department ended its quality control review on September 30, 2013 to being a new pilot program over the eligibility determinations made within Vermont Health Connect, the State's new Health Care Exchange. The new review pilots required by CMS focus on eligibility determinations within Vermont Health Connect, and do not cover any individuals who are not enrolled through this system. Due to the challenges getting individuals enrolled within Vermont Health Connect, many individuals remained within the ACCESS system, and were not transitioned into Vermont Health Connect during SFY14. As the quality control reviews that focused on individuals within the ACCESS system ended, there was a portion of the year from September 30, 2013 through June 30, 2014 that no eligibility reviews were taking place over this population.

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Finding 2014-051

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Healthcare Providers and Suppliers (Title XVIII) Medicare (CFDA #93.777)

Medical Assistance Program (Medicaid; Title XIX) (CFDA #93.778)

Program Award Number and Year

11-W-00194/1 1/1/11–12/31/16

11-W-00191/6 10/1/10–9/30/15

75X0512 10/1/10–6/30/14

Criteria

Eligibility for Individuals

The State Medicaid agency or its designee is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plan (42 CFR section 431.10).

There are specific requirements that must be followed to ensure that individuals meet the financial and nonfinancial requirements for Medicaid. These include that the State or its designee shall:

- (1) Accept an application submitted online, by telephone, via mail, or in person and include in each applicant's case records facts to support the agency's decision on the application (42 USC 1320b-7(d); 42 CFR sections 435.907 and 435.913).
- (2) Request information from other agencies in the State and other State and Federal programs to the extent that such information is useful in verifying the financial eligibility of an individual. If information provided by or on behalf of an individual is reasonably compatible with information obtained from the electronic data sources, then the agency must determine or renew eligibility based on such information and may not require the individual to provide any further documentation. If the information is not reasonably compatible, then the agency must provide the individual with a reasonable period of time to explain the discrepancy or furnish additional information (42 CFR sections 435.948 and 435.952).
- (3) Require, as a condition of eligibility, that each individual seeking Medicaid furnish his or her Social Security number (SSN). This requirement does not apply if the individual (a) is not eligible to receive an SSN, (b) does not have an SSN and may be issued an SSN only for a valid nonwork reason, or (c) because of well-established religious objections, refuses to obtain a SSN. In re-determining eligibility,

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if the case record does not contain the required SSN, the agency must require the recipient to furnish the SSN (42 USC 1320b-7(a)(1); 42 CFR sections 435.910 and 435.920).

- (4) Verify each SSN of each applicant and recipient with SSA to ensure that each SSN furnished was issued to that individual and to determine whether any others were issued (42 CFR sections 435.910(g) and 435.920).
- (5) Verify and document the citizenship and immigration status of each applicant (42 USC 1320b-7d).

Condition Found

The Vermont State Medicaid rules section P-2402 state that on or about the 11th of the month prior to the month of review, the Economic Service Division (ESD) worker will receive a computer-generated review letter (DSW 202RL) to be mailed to the Medicaid recipient up for review. The letter will require that the recipient complete and return the review form and verification if he or she wants Medicaid benefits to continue. On the adverse action deadline included in the letter, ACCESS, the State's benefit eligibility management system, will close Medicaid cases coded with a "50" or "35" that were sent a review letter and have not returned their application and Form 202. A closure notice will be generated and sent to the participant.

The review process is a specific requirement that must be followed to ensure that individuals meet the financial and categorical requirements for Medicaid.

During eligibility testwork it was noted that approximately 12,000 individuals were automatically re-enrolled for Medicaid benefits without a proper review as required by the Medicaid eligibility rules. The individuals who were re-enrolled were people who had not properly signed up for benefits through Vermont Health Connect, the State's new health exchange. As these individuals were going to lose health care coverage, the State made the decision to re-enroll participants until a later date when they could be properly transferred to Vermont Health Connect.

Cause

Due to magnitude of the effort involved in implementing the new state based health exchange and problems with the computer system as well as the phone support system many Medicaid participants were automatically re-enrolled without the proper documents needed to support the determination.

Effect

The effect of the condition found is that the Department of Children and Families may be providing Medicaid coverage to individuals who are no longer eligible to receive benefits.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

Not determinable.

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Recommendation

We recommend that Department review implement the necessary actions to ensure that participants who were automatically re-enrolled were actually eligible for continued Medicaid benefits.

Management's Response and Corrective Action

The Department for Children and Families (DCF) maintains that they had approval to automatically re-enroll these individuals without re-reviewing. The Center for Medicaid Services (CMS) knew of the department's actions and gave verbal approval for reinstatement of the clients who failed to successfully migrate themselves from ACCESS to Vermont Health Connect. DCF is working ongoing with CMS with a mitigation plan for several issues and this is part of it.

Scheduled Completion Date of Corrective Plan

Mitigation plan on-going until 2017.

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

Rejoinder

Throughout the audit we requested that the Department provide documentation to support their claims that they had kept CMS informed of the decision to auto re-enroll participants as well as any correspondence from CMS. In a call on September 26, 2014 with the Department, they indicated that they had sent numerous e-mails to CMS regarding their plans for eligibility redeterminations, including providing a draft mitigation plan to CMS that addressed the verification issues as well as a draft verification plan and transition plan on how the State would rectify these issues. The Department also indicated that they participated in a call with CMS on extension options due to the transition problems with the state based exchange. We repeatedly requested copies of this correspondence as well as the draft mitigation, verification and transition plans but the Department did not provide any documentation.

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Finding 2014-052

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Healthcare Providers and Suppliers (Title XVIII) Medicare (CFDA #93.777)

Medical Assistance Program (Medicaid; Title XIX) (CFDA #93.778)

Program Award Number and Year

11-W-00194/1 10/2/13–12/31/16

11-W-00191/6 10/1/10–9/30/15

75X0512 10/1/10–6/30/14

Criteria

The Global Commitment to Health Section 1115 Demonstration Waiver (the Waiver), Section XII, paragraph 64 states:

Use of Demonstration Funds. Expenditures within the per member per month limit (calculated over the life of the demonstration) can include expenditures for the following purposes:

- a. Reduce the rate of uninsured and/or underinsured in Vermont;
- b. Increase the access of quality health care to uninsured, underinsured and Medicaid beneficiaries,
- c. Provide public health approaches and other innovative programs to improve the health outcomes, health status and quality of life for the uninsured, underinsured and Medicaid-eligible individuals in Vermont; and
- d. Encourage the formation and maintenance of public-private partnerships in health care, including initiatives to support and improve the health care delivery system.

Condition Found

The above use of demonstration funds are referred to as MCO investments by the State. During State fiscal year 2014 the State had 89 MCO investment programs resulting in \$127 million in gross expenditures. Each MCO program goes through an internal proposal process whereby the requesting department outlines a description of the MCO investment program, the funding considerations and which investment objective the program falls under (i.e. category a-d in the criteria section above). Once an investment proposal is accepted by the State review team, a budget is developed and expenditures may then be incurred against the Waiver.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2014

During our test work over the allowability of MCO investment expenditures, we selected 20 of the 89 MCO investment programs for the year ended June 30, 2014 and noted the following:

Findings	
1.	<p>MCO Investment Program: Vermont Physician Training</p> <p>State Fiscal Year 2014 Expenditures: \$4,006,156</p> <p>MCO Investment Objective: b – Increase the access of quality health care to uninsured, underinsured and Medicaid beneficiaries.</p>
	<p><i>Finding</i></p> <p>MCO Investments totaling \$4,006,156 were paid to the University of Vermont (UVM) to provide services under the Vermont Physician Training program. This program is directly appropriated money by the Vermont State Legislature. The University of Vermont certified that the funds had been used to support the University’s College of Medicine’s educational programs.</p> <p>During testwork we noted the following:</p> <ul style="list-style-type: none"> a. Although UVM submits a certification to the State outlining the number of students enrolled, number of degrees granted and the funds expended under the MCO investment program, the State does not perform an independent verification of the certified data or conduct other monitoring activities to ensure that the certification is accurate and that the expenditures were for allowable purposes under the Waiver. b. Additionally, the State’s agreement with UVM allows the MCO investment funds to also be used for support activities at the College of Medicine. These include, but are not limited to, the set up and completion of student enrollment, the organization and coordination of the medical curriculum, and expenses associated with the oversight of the education of students carried out in the Dean’s office. Based on the documentation provided by the State we were unable to determine how these activities meet the MCO investment objective noted above. <p><i>Management’s Response and Corrective Action:</i></p> <ul style="list-style-type: none"> a. AHS is confident that the quarterly certification that UVM provides is accurate and that their assertion is supported by financial records that have a Single Audit each year. AHS is of the opinion that it does not have to re-audit information covered by the UVM audit. b. AHS has implemented procedures for the approval of MCO investments and for the documentation of that process. Those documents have been made available to the auditor. AHS believes that this finding arises from a difference in understanding of the terms of the waiver between itself and the auditors, and not from a lack of documentation. AHS and CMS are in continuous discussions of the nature of the demonstration and its progress. The MCO investments are reported to CMS annually. Evaluation of the demonstration is an essential part

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Findings	
	<p>of the waiver process and is ongoing. The adequacy of documentation of the demonstration is an element of that ongoing discussion and evaluation. The GC Waiver was extended on January 1, 2011. Prior to extension, CMS reviewed expenditures made during the initial five year waiver period, including the MCO investments. The review did not challenge or request changes in any of the MCO investments nor were any new requirements added to the STCs pertaining to the MCO Investments. We are confident that we have documented the investments well, supported the costs allocated to this program, and that CMS approves of our process and MCO investment costs.</p> <p><i>Scheduled Completion Date of Corrective Action Plan</i></p> <p>No further corrective action is considered necessary.</p> <p><i>Contact for Corrective Action Plan</i></p> <p>Rob Roberts, AHS Audit Chief 802-871-3006</p> <p>Rejoinder</p> <p>a) Although the Agency does review UVM’s audit report the documentation of the review is not clear as to whether they specifically look at the how the MCO investments are reported and whether they are appropriately accounted for in the audit report.</p> <p>b) Based on the nature of the agreement with UVM we are unable to determine how funding the general operations of the College of Medicine increase the access of quality health care to uninsured, underinsured and Medicaid beneficiaries.</p>
2.	<p>MCO Investment Program: Community Rehabilitative Care</p> <p>State Fiscal Year 2014 Expenditures: \$2,388,327</p> <p>MCO Investment Objective: b – Increase the access of quality health care to uninsured, underinsured and Medicaid beneficiaries.</p>
	<p><i>Finding</i></p> <p>MCO Investments totaling \$2,388,327 were used to fund the Community Rehabilitative Care Program administered by the Department of Corrections. The services under this program represent salary costs of Probation and Parole Officers that provide case management services and construct and implement case plans to address criminogenic behaviors.</p>

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Findings
<p>During our testwork, we noted the following:</p> <ul style="list-style-type: none">a. Payroll costs were allocated to this program using a rate of 38%, which is an estimate made by the Department of Corrections as to the percentage of Vermont residents who are uninsured, underinsured or Medicaid eligible. We were unable to obtain evidence to support the reasonableness of this percentage.b. The payroll allocation is then multiplied by an additional rate of 62.5%, which is the estimated time that Probation and Parole Officers spend providing these services. This percentage was based on an analysis conducted several year ago of the job duties for these positions which indicated that Probation and Parole Officers spend 5 hours per day on case management services (5/ 8 hour standard day = 62.5%). There is no supporting documentation for how this analysis was prepared to support that it is an accurate or reasonable basis for allocation.c. The Department was unable to provide evidence to support that the case management services provided by the Probation and Parole Officers met the definition of MCO Investment category b and in fact, increased the access of quality health care to uninsured, underinsured and Medicaid beneficiaries. <p><i>Management's Response and Corrective Action</i></p> <ul style="list-style-type: none">a. Several MCO investments are allocated using a rate that represents the percentage of Vermonters that are uninsured, underinsured, or Medicaid eligible. This rate is based on the results of the Vermont Household Health Insurance Survey (VHHIS) performed by Vermont Department of Finance and Regulation (DFR). DFR contracted with experts in the field of survey methodology to complete the surveys and prepare the report. DOC believes the rate they used is reasonably based on statistics.b. A study was done of the Probation & Parole Officer's job duties to determine the percentage of time that they are providing case management services. The results showed that as this is a primary function of the job, approximately 5 hours per day per officer is for this purpose. (5/8 equaling 62%) The Department of Corrections believes that this is reasonable.c. AHS has implemented procedures for the approval of MCO investments and for the documentation of that process. Those documents have been made available to the auditor. AHS believes that this finding arises from a difference in understanding of the terms of the waiver between itself and the auditors, and not from a lack of documentation. AHS and CMS are in continuous discussions of the nature of the demonstration and its progress. The MCO investments are reported to CMS annually. Evaluation of the demonstration is an essential part of the waiver process and is ongoing. The adequacy of documentation of the demonstration is an element of that ongoing discussion and evaluation. The GC Waiver was extended on January 1, 2011. Prior to extension, CMS reviewed expenditures made during the initial five year waiver period, including the MCO investments. The review did not challenge or request changes in any of the MCO investments nor were any new requirements added to the STCs

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

	Findings
	<p>pertaining to the MCO Investments. We are confident that we have documented the investments well, supported the costs allocated to this program, and that CMS approves of our process and MCO investment costs.</p> <p><i>Scheduled Completion Date of Corrective Action Plan</i></p> <p>No further corrective action is considered necessary.</p> <p><i>Contact for Corrective Action Plan</i></p> <p>Rob Roberts, AHS Audit Chief 802-871-3006</p> <p>Rejoinder</p> <p>During testwork we made inquiries as to what documentation existed to support the allocation of salaries. Although we have been told that a time study was done, the Department was unable to provide actual supporting documentation. In our last follow up with the Department on January 29, 2015 we were told that the Department believes there is documentation however they were unable to locate support but they “believe that this is still a reasonable figure” for allocation. It should be further noted that this is the 5th year that this finding has been reported and this documentation has been requested with the Department’s response being the same each year.</p> <p>In accordance with the provisions of Circular A-87, <i>Cost Principles for State, Local and Indian Tribal Governments</i>, costs must be allocated in accordance with relative benefits received as well as be adequately documented. The Department has consistently been unable to show how they have achieved these general cost principles.</p>
3	<p>MCO Investment Program: Building Bright Futures</p> <p>State Fiscal Year 2014 Expenditures: \$594,070</p> <p>MCO Investment Objective: c – Provide public health approaches and other innovative programs to improve the health outcomes, health status and quality of life for the uninsured, underinsured and Medicaid-eligible individuals in Vermont.</p>
	<p><i>Finding</i></p> <p>MCO Investments totaling \$594,070 were paid to help fund the Building Bright Futures program administered by the Department of Children and Families. Under this program grants are awarded to community-based agencies to support activities that contribute to the health and well-being of the young children and their families.</p>

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Findings	
	<p>During our testwork, we noted the following:</p> <p>a. Costs are allocated to the MCO investment program at a rate of 41%. This percentage is based on the budgeted costs as well as an estimate of the Vermont population that is Medicaid eligible, underinsured or uninsured based on the 2009 Vermont Household Healthy Insurance Survey (VHHIS). We were unable to obtain support for the allocation methodology.</p> <p><i>Management’s Response and Corrective Action:</i></p> <p>a. The allocation methodology is based as follows: out of the three “Early Childhood Development and Family Support Functions” discussed in Attachment A of the Building Bright Futures grants serve health related purposes: 1) disseminate public info re: laws about child abuse and neglect, and 2) inform families of Dr. Dynasaur eligibility requirements and other health programs to ensure health care coverage for all young children and their parents. The third component speaks to parental supports. Using this information, 66.7% of the Building Bright Futures are considered health related meeting MCO Investment criteria; 60.9% of that is allocated as for Medicaid/underinsured/uninsured.</p> <p><i>Scheduled Completion Date of Corrective Action Plan</i></p> <p>No further corrective action considered necessary.</p> <p><i>Contact for Corrective Action Plan</i></p> <p>Rob Roberts, AHS Audit Chief 802-871-3006</p> <p>Rejoinder</p> <p>See general rejoinder at the end of this finding.</p>
4.	<p>MCO Investment Program: Epidemiology</p> <p>State Fiscal Year 2014 Expenditures: \$623,363</p> <p>MCO Investment Objective: c – Provide public health approaches and other innovative programs to improve the health outcomes, health status and quality of life for the uninsured, underinsured and Medicaid-eligible individuals in Vermont.</p>
	<p><i>Finding</i></p> <p>MCO Investments totaling \$623,363 were paid to help fund the Epidemiology MCO investment program administered by the Vermont Department of Health. Costs to this program were for salaries for epidemiological services.</p>

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Findings	
	<p>During our testwork we noted the following:</p> <p>a. The payroll costs incurred under this program were allocated to the MCO program using a rate of approximately 60.9%, which is an estimate of the Vermont population that is Medicaid eligible, uninsured, or uninsured based on the 2009 Vermont Household Health Insurance Survey (VHHIS) results provided to the State Legislature on January 15, 2010. A 2012 VHHIS survey increased this percentage to 65%; however for budgetary purposes the State has retained usage of the 60.9% level. While the individual costs selected for testwork under this program appeared to meet the MCO investment objective, we were unable to determine whether or not the 60.9% allocation rate is reasonable to appropriately allocate the costs.</p> <p><i>Management's Response and Corrective Action</i></p> <p>a. Several MCO investments are allocated using a rate that represents the percentage of Vermonters that are uninsured, underinsured, or Medicaid eligible. This rate is based on the results of the Vermont Household Health Insurance Survey (VHHIS) performed by Vermont Department of Finance and Regulation (DFR). DFR contracted with experts in the field of survey methodology to complete the surveys and prepare the report. There is no requirement that AHS use the highest rate. AHS is of the opinion that the rate used is reasonable and supported by the survey.</p> <p><i>Scheduled Completion Date of Corrective Action Plan</i></p> <p>No further corrective action considered necessary.</p> <p><i>Contact for Corrective Action Plan</i></p> <p>Rob Roberts, AHS Audit Chief 802-871-3006</p>
5.	<p>MCO Investment Program: Lamoille Valley Community Justice Project</p> <p>State Fiscal Year 2014 Expenditures: \$402,685</p> <p>MCO Investment Objective: b – Increase the access of quality health care to uninsured, underinsured and Medicaid beneficiaries.</p>
	<p><i>Finding</i></p> <p>MCO Investments totaling \$402,685 were paid to help fund the Lamoille Valley Community Justice Project administered by the Department of Children and Families. This program provides health-focused case management, referral, outreach, and wrap around services to children of incarcerated parents to rescue the likelihood of those at risk youth experiencing emotional or behavioral health issues that could lead to future incarnation themselves.</p>

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Findings
<p>During our testwork, we noted the following:</p> <p>a. Expenditures under this project were paid to fund a grant with the objective of delivering a network of curriculum based parenting education programs and support groups through the Nurturing Parents and Circle of Parents Support groups. The objective of this grant does not appear to be line with the MCO objective to increase the access of quality health care to uninsured, underinsured, and Medicaid beneficiaries.</p> <p><i>Management’s Response and Corrective Action</i></p> <p>The grant referred to above was inadvertently included in a work schedule prepared for the audit. The grant mentioned is an investment of its own meeting objective c and not part of the Lamoille Valley Community Justice Project. The work schedule was revised to show the grant under its correct investment and the schedule total for both investments were adjusted to the correct amounts.</p> <p><i>Scheduled Completion Date of Corrective Action Plan</i></p> <p>Completed January 9, 2015. No further corrective action required.</p> <p><i>Contact for Corrective Action Plan</i></p> <p>Rob Roberts, AHS Audit Chief 802-871-3006</p> <p>Rejoinder</p> <p>We acknowledge management’s response that this MCO was categorized under MCO investment b when it belong as MCO investment c to “provide public health approaches and other innovative programs to improve the health outcomes, health status and quality of life for the uninsured, ;”underinsured and Medicaid-eligible individuals in Vermont; “however in reviewing the statement of work for the Lamoille Valley Community Justice Project we note that the award is for parenting education programs and there is no documentation to support how these funds meet either MCO objective b or c and how they are allowable under the Global Commitment waiver.</p>
<p>6. MCO Investment Program: Vermont Veterans Home</p> <p>State Fiscal Year 2014 Expenditures: \$410,986</p> <p>MCO Investment Objective: b – Increase the access of quality health care to uninsured, underinsured and Medicaid beneficiaries.</p>

STATE OF VERMONT
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2014

Findings	
	<p><i>Finding</i></p> <p>MCO Investments totaling \$410,986 were paid to the Vermont Veterans Home, a skilled nursing facility that serves veterans, spouses, and Gold Star parents (parents of soldiers killed in action). This program is directly appropriated money by the Vermont State Legislature as part of the annual budget process.</p> <p>During testwork we noted that only a portion of the costs paid to the Vermont Veterans Home were subject to monitoring through the Division of Rate Setting and therefore could not determine if all of the expenditures were allowable under the Waiver.</p> <p><i>Management's Response and Corrective Action</i></p> <p>AHS has implemented procedures for the approval of MCO investments and for the documentation of that process. Those documents have been made available to the auditor. AHS believes that this finding arises from a difference in understanding of the terms of the waiver between itself and the auditors, and not from a lack of documentation. AHS and CMS are in continuous discussions of the nature of the demonstration and its progress. The MCO investments are reported to CMS annually. Evaluation of the demonstration is an essential part of the waiver process and is ongoing. The adequacy of documentation of the demonstration is an element of that ongoing discussion and evaluation. The GC Waiver was extended on January 1, 2011. Prior to extension, CMS reviewed expenditures made during the initial five year waiver period, including the MCO investments. The review did not challenge or request changes in any of the MCO investments nor were any new requirements added to the STCs pertaining to the MCO Investments. We are confident that we have documented the investments well, supported the costs allocated to this program, and that CMS approves of our process and MCO investment costs</p> <p><i>Scheduled Completion Date of Corrective Action Plan</i></p> <p>No further corrective action is considered necessary.</p> <p><i>Contact for Corrective Action Plan</i></p> <p>Rob Roberts, AHS Audit Chief 802-871-3006</p>
7.	<p>MCO Investment Program: Aid to the Aged, Blind, and Disabled CCL III</p> <p>State Fiscal Year 2014 Expenditures: \$2,611,499</p> <p>MCO Investment Objective: b – Increase the access of quality health care to uninsured, underinsured and Medicaid beneficiaries.</p>

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Findings	
	<p><i>Finding</i></p> <p>MCO Investments totaling \$2,611,499 were used to fund payments made for the Aid to the Aged, Blind, and Disabled CCL III program which is administered by the Department of Children and Families. The costs incurred under this program represented additional payments made to individuals who receive SSI and live in a level III home. A level III home provides services to people in need of a residence for reasons of health status. The payments made under this program are paid directly to the participant.</p> <p>During testwork we were unable to obtain evidence to support that the participant used this payment for healthcare related services as defined by the Waiver and accordingly, we could not determine if these expenditures were for allowable costs.</p> <p><i>Management's Response and Corrective Action</i></p> <p>AHS has implemented procedures for the approval of MCO investments and for the documentation of that process. Those documents have been made available to the auditor. AHS believes that this finding arises from a difference in understanding of the terms of the waiver between itself and the auditors, and not from a lack of documentation. AHS and CMS are in continuous discussions of the nature of the demonstration and its progress. The MCO investments are reported to CMS annually. Evaluation of the demonstration is an essential part of the waiver process and is ongoing. The adequacy of documentation of the demonstration is an element of that ongoing discussion and evaluation. The GC Waiver was extended on January 1, 2011. Prior to extension, CMS reviewed expenditures made during the initial five year waiver period, including the MCO investments. The review did not challenge or request changes in any of the MCO investments nor were any new requirements added to the STCs pertaining to the MCO Investments. We are confident that we have documented the investments well, supported the costs allocated to this program, and that CMS approves of our process and MCO investment costs</p> <p><i>Scheduled Completion Date of Corrective Action Plan</i></p> <p>No further corrective action considered necessary.</p> <p><i>Contact for Corrective Action Plan</i></p> <p>Rob Roberts, AHS Audit Chief 802-871-3006</p>
8.	<p>MCO Investment Program: Vermont Information Technology</p> <p>State Fiscal Year 2014 Expenditures: \$1,549,214</p>

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Findings	
	<p>MCO Investment Objective: d – Encourage the formation and maintenance of public-private partnerships in health care, including initiatives to support and improve the health care delivery system.</p>
	<p><i>Finding</i></p> <p>MCO Investments totaling \$1,549,214 were paid to help fund the Vermont Information Technology program administered by the Department of Vermont Health Access.</p> <p>During testwork we noted:</p> <p>a. The payroll costs incurred under this program were allocated to the MCO Investment using a rate of approximately 60.9%, which is an estimate of the Vermont population that is Medicaid eligible, uninsured, or uninsured based on the 2009 Vermont Household Health Insurance Survey (VHHIS) results provided to the State Legislature on January 15, 2010. A 2012 VHHIS survey increased this percentage to 65%; however for budgetary purposes the State has retained usage of the 60.9% level. We were unable to determine whether the 60.9% allocation rate is reasonable to appropriately allocate the costs.</p> <p><i>Management’s Response and Corrective Action</i></p> <p>Several MCO investments are allocated using a rate that represents the percentage of Vermonters that are uninsured, underinsured, or Medicaid eligible. This rate is based on the results of the Vermont Household Health Insurance Survey (VHHIS) performed by Vermont Department of Finance and Regulation (DFR). DFR contracted with experts in the field of survey methodology to complete the surveys and prepare the report. There is also no requirement that AHS use the highest rate. AHS is of the opinion that the rate used is reasonable and supported by the survey.</p> <p><i>Scheduled Completion Date of Corrective Action Plan</i></p> <p>No further corrective action is considered necessary.</p> <p><i>Contact for Corrective Action Plan</i></p> <p>Rob Roberts, AHS Audit Chief 802-871-3006</p> <p><i>Rejoinder</i></p> <p>See general rejoinder at the end of this finding.</p>
9.	<p>MCO Investment Program: Vermont Blue Print for Health administered</p> <p>State Fiscal Year 2014 Expenditures: \$2,490,206</p>

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Findings	
	<p>MCO Investment Objective: d – Encourage the formation and maintenance of public-private partnerships in health care, including initiatives to support and improve the health care delivery system.</p>
	<p><i>Finding</i></p> <p>MCO investments totaling \$2,490,206 were paid to help fund the Vermont Blue Print for Health program administered by the Department of Vermont Health Access.</p> <p>During our testwork we noted the following:</p> <p>a. The payroll costs incurred under this program were allocated to the MCO Investment using a rate of approximately 60.9%, which is an estimate of the Vermont population that is Medicaid eligible, uninsured, or uninsured based on the 2009 Vermont Household Health Insurance Survey (VHHIS) results provided to the State Legislature on January 15, 2010. A 2012 VHHIS survey increased this percentage to 65%; however for budgetary purposes the State has retained usage of the 60.9% level. We were unable to determine whether the 60.9% allocation rate is reasonable to appropriately allocate the costs.</p> <p><i>Management’s Response and Corrective Action</i></p> <p>Several MCO investments are allocated using a rate that represents the percentage of Vermonters that are uninsured, underinsured, or Medicaid eligible. This rate is based on the results of the Vermont Household Health Insurance Survey (VHHIS) performed by Vermont Department of Finance and Regulation (DFR). DFR contracted with experts in the field of survey methodology to complete the surveys and prepare the report. There is also no requirement that AHS use the highest rate. AHS is of the opinion that the rate used is reasonable and supported by the survey.</p> <p><i>Scheduled Completion Date of Corrective Action Plan</i></p> <p>No further corrective action is considered necessary.</p> <p><i>Contact for Corrective Action Plan</i></p> <p>Rob Roberts, AHS Audit Chief 802-871-3006</p> <p><i>Rejoinder</i></p> <p>See general rejoinder at the end of this finding.</p>
10.	<p>MCO Investment Program: Essential Persons Program</p> <p>State Fiscal Year 2014 Expenditures: \$801,658</p>

STATE OF VERMONT
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2014

	Findings
	<p>MCO Investment Objective: b – Increase the access of quality health care to uninsured, underinsured and Medicaid beneficiaries.</p>
	<p><i>Finding</i></p> <p>MCO Investments totaling \$801,658 were paid to help funds the Essential Persons Program administered by the Department for Children and Families. Costs incurred under this program relate to payments made to an individual to assist the individual in obtaining healthcare or to pay for premiums for current health insurance.</p> <p>During testwork we were unable to obtain evidence to support that the participant used this payment for healthcare related services as defined by the Waiver and accordingly, we could not determine if these expenditures were for allowable costs.</p> <p><i>Management’s Response and Corrective Action</i></p> <p>AHS has implemented procedures for the approval of MCO investments and for the documentation of that process. Those documents have been made available to the auditor. AHS believes that this finding arises from a difference in understanding of the terms of the waiver between itself and the auditors, and not from a lack of documentation. AHS and CMS are in continuous discussions of the nature of the demonstration and its progress. The MCO investments are reported to CMS annually. Evaluation of the demonstration is an essential part of the waiver process and is ongoing. The adequacy of documentation of the demonstration is an element of that ongoing discussion and evaluation. The GC Waiver was extended on January 1, 2011. Prior to extension, CMS reviewed expenditures made during the initial five year waiver period, including the MCO investments. The review did not challenge or request changes in any of the MCO investments nor were any new requirements added to the STCs pertaining to the MCO Investments. We are confident that we have documented the investments well, supported the costs allocated to this program, and that CMS approves of our process and MCO investment costs</p> <p><i>Scheduled Completion Date of Corrective Action Plan</i></p> <p>No further corrective action is considered necessary.</p> <p><i>Contact for Corrective Action Plan</i></p> <p>Rob Roberts, AHS Audit Chief 802-871-3006</p> <p><i>Rejoinder</i></p> <p>See general rejoinder at the end of this finding.</p>

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

While the AHS and the Department of Vermont Health Access have developed procedures for defining how they interpret the types of costs that are allowable under each MCO Investment category, we were unable to conclude that each of the costs selected above was allowable under the narrow definition provided within the Waiver. Based on the lack of documentation to support the rationale for how these costs were allocated to the program, we consider this to be a material weakness in internal controls.

A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-040.

Cause

The cause of the condition found is the lack of documentation to support how costs are determined to be an allowable MCO Investment and documentation to support the methodologies used to allocate costs to an MCO Investment.

Effect

The effect of the condition found is that costs may be charged to the program that are not allowable under federal regulations.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that:

- a. The State review its policies and procedures on what constitutes appropriate, sufficient documentation to support that costs are incurred for allowable activities and implement the necessary changes to help ensure that the above noted documentation findings are resolved.
- b. The State reviews its allocation methodologies and implements procedures to ensure that the methodology is auditable and/or work with CMS to obtain approval of the allocation methodology.

Management's Response and Corrective Action Plan

See individual citations.

Scheduled Completion Date of Corrective Plan

See individual citations.

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Rejoinder (in addition to other rejoinders noted above)

60.9% Allocation Rate – as noted above in several MCO findings as well as in the Agency’s response to this component of the finding, although this rate is based on the results of a survey conducted by the Vermont Department of Finance and Regulation (DFR), CMS has not explicitly approved this allocation rate nor has AHS provided sufficient documentation to show that the allocation is reasonable, is a proper allocation method or that it is auditable.

CMS Approval: In several responses above, AHS states:

“The MCO investments are reported to CMS annually. Evaluation of the demonstration is an essential part of the waiver process and is ongoing. The adequacy of documentation of the demonstration is an element of that ongoing discussion and evaluation. The GC Waiver was extended on January 1, 2011. Prior to extension, CMS reviewed expenditures made during the initial five year waiver period, including the MCO investments. The review did not challenge or request changes in any of the MCO investments nor were any new requirements added to the STCs pertaining to the MCO Investments. We are confident that we have documented the investments well, supported the costs allocated to this program, and that CMS approves of our process and MCO investment costs.”

Although AHS has made the above statement, they have been unable to provide any documentation that supports the approval, whether express or implied, by CMS.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2014

Finding 2014-053

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Healthcare Providers and Suppliers (Title XVIII) Medicare (CFDA #93.777)

Medical Assistance Program (Medicaid; Title XIX) (CFDA #93.778)

Program Award Number and Year

11-W-00194/1 10/2/13–12/31/16

11-W-00191/5 10/1/10–9/30/15

75X0512 10/1/10–6/30/14

Criteria

Matching or cost sharing includes requirements to provide contributions (usually nonfederal) of a specified amount or percentage to match federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions). Entities are required to provide reasonable assurance that matching requirements are met using only allowable funds or costs that are properly calculated or valued. Additionally, under the standard terms and conditions of the Waiver, unless specified otherwise, all requirements of the Medicaid program apply to the Waiver, which includes the requirement that all sources of nonfederal funding be compliant with section 1903(w) of the Social Security Act and applicable regulations.

Condition Found

In May 2013, the State received approval from the Centers for Medicaid Services (CMS) to implement supplemental payment provisions to teaching hospitals for direct graduate medical education (DGME) and indirect medical education (IME) and to provide supplemental payments to physicians employed by teaching hospitals. This amendment was effective retroactively to July 1, 2011. In the CMS OS Notification included with the State Plan Amendment, it stated that the nonfederal share for these costs would be provided by the University of Vermont (UVM), through an intergovernmental transfer, from the appropriation UVM received from the State’s general fund. During State fiscal year 2014, \$30.4 million in gross expenditures were paid for DGME and IME and UVM provided \$13.2 million in matching funds.

During our testwork, we noted that UVM provided the State with a certification stating that the \$13.2 million paid originated from their general fund appropriation; however the State did not perform an independent verification of the certified data or conduct other monitoring activities to ensure that the certification was accurate to ensure that the matching funds were derived from the stated sources and were therefore an allowable matching source of funds.

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A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-045.

Cause

The cause of the condition found is that AHS believes that the UVM certification is sufficient documentation for validating the source of matching funds and that no further action is needed.

Effect

The State may not have provided the necessary required state match under this program. As a result, the State may have inappropriately drawn down federal funds due to a lack of required state match being made available at the time of the federal draw.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the AHS review its policies and procedures for documenting how it has provided the required state match for the Medicaid program and that the source of the match is allowable and accurate. The AHS may want to consult with CMS on what constitutes providing reasonable assurance that matching requirements are met using only allowable funds in accordance with Federal regulations.

Management's Response and Corrective Action Plan

The Agency of Human Services disagrees with this finding.

The Department for Vermont Health Access (DVHA) receives signed certifications on a quarterly basis from the Vice President for Finance & Treasurer of UVM attesting to the match. AHS is of the opinion that these certifications submitted by UVM and the footnotes in the FY 14 UVM audited financial statements concerning the match provide reasonable assurance as to allowability and validity of costs. UVM has provided a copy of their ledger showing the transfer amounts to the state and that they are coded to their general fund. The Agency is of the opinion that all of the information received is sufficient and does not think it necessary to verify or audit information that gets reviewed by independent auditors unless there is a discrepancy in the UVM audit.

Scheduled Completion Date of Corrective Plan

Completed. No further action required.

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 871-3006

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Rejoinder

Entities are required to provide reasonable assurance that matching funds are met using only allowable funds or costs that are properly calculated or valued. Although UVM provided the State with a certification stating that the match paid originated from their general fund appropriation, the State did not perform an independent verification of the certified data or conduct other monitoring activities to ensure that the certification was accurate to ensure that the matching funds were derived from the stated sources and were therefore an allowable source of matching funds. Further, the ledger provided by UVM to the State as noted in management's response was provided after the fact and in response to the audit finding and there is no evidence that the State reviewed it as part of their oversight responsibilities.

During the prior year audit we noted that the approval by CMS of these supplemental payments to Fletcher Allen Health Care and the related match provided by UVM was a lengthy and complex process, in part due to the complex financial relationship between Fletcher Allen Health Care and UVM which required many clarifications on the allowability of the transaction. Due to the complexity of this transaction, monitoring by the State to ensure that the supplemental payment and related match are done in accordance with the Federal regulations is needed to ensure compliance.

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Year ended June 30, 2014

Finding 2014-054

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Healthcare Providers and Suppliers (Title XVIII) Medicare (CFDA #93.777)

Medical Assistance Program (Medicaid; Title XIX) (CFDA #93.778)

Program Award Number and Year

11-W-00194/1 10/2/13–12/31/16

11-W-00191/6 10/2/13–12/31/16

75X0512 10/1/10–6/30/14

Criteria

Funds can be used only for Medicaid benefit payments (as specified in the State plan, Federal regulations, or an approved waiver), expenditures for administration and training, expenditures for the State Survey and Certification Program, and expenditures for State Medicaid Fraud Control Units (42 CFR sections 435.10, 440.210, 440.220, and 440.180).

Condition Found

In May 2013, the State received approval from Centers for Medicaid Services (CMS) to implement supplemental payment provisions to teaching hospitals for direct graduate medical education (DGME) and indirect medical education (IME) and to provide supplemental payments to physicians employed by teaching hospitals. This amendment was effective retroactively to July 1, 2011. The Medicaid State plan Attachment 4.19-A, section IV, and Attachment 4.19-B outline the method for establishing the payment rate and amount for the DGME and IME payments to Fletcher Allen.

During our testwork, we noted that part of the GME payment made to Fletcher Allen for the teaching hospital physician payments is based off the Average Commercial Payment Rate. As outlined in the Medicaid State plan, Attachment 4.19-B, the Average Commercial Payment Rate is calculated based on procedure codes, including patient share amounts, paid by the top five commercial third party payers for the Hospital. The information for the average rate for each procedure code is a straight average among all rates available. The information used in the calculation is provided by Fletcher Allen and used in the calculation to determine the GME payment amount.

The Department is responsible for ensuring that the payment made to Fletcher Allen is accurate and based on the methods outlined in the State Plan. While the Hospital is required to retain all information used in these calculations to allow the Department and the ability to validate information submitted by the Hospital,

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the Department did not request or validate rates entered into this calculation by Fletcher Allen but rather relied upon the information provided by Fletcher Allen. As this rate is a key component in the payment calculation used to determine if the payment is correct, the Department should verify the accuracy of this rate provided. As the Department is using information provided by the party that they are paying, we cannot verify that the rate used was accurate, and as such the payment could potentially result in an unallowable cost.

Cause

The cause of the condition found is that AHS uses the Average Commercial Payment Rate provided by Fletcher Allen, and does not validate information used in the calculation.

Effect

The information contained within the calculation could contain errors or false information. As a result, the State may have incurred unallowable costs due to the inaccurate information.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the AHS review its policies and procedures for reviewing the information submitted by Fletcher Allen used in the calculation to ensure that it is complete and accurate.

Management's Response and Corrective Action Plan

DVHA receives screen shots from FAHC billing system for the five high volume CPT codes request for all commercial carriers to substantiate the rates reported that comprise the Average Commercial Rate for each of these services and feels this has been adequate coverage. The methodology agreed to with FAHC does indicate that DVHA may require supporting documentation to support the results for the average commercial rate. DVHA has been doing this in FY 15.

Scheduled Completion Date of Corrective Plan

Support for FAHC calculations requested in FY 15. Completed by June 30, 2015.

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 871-3006

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Rejoinder

The Department may obtain screen shots from FAHC billing system for the five high volume CPT codes requested for all commercial carriers, however they do not verify or spot check any other rates within the calculation. As the Department is calculating a payment with information provided directly from the Party who is receiving the payment, it is up to the Department to ensure the calculation is complete and accurate. As the Department has not requested further underlying support for the Average Commercial Payment, we are unable to verify that the Department has done their due diligence over the accuracy of the information submitted to them by Fletcher Allen.

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Finding 2014-055

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Healthcare Providers and Suppliers (Title XVIII) Medicare (CFDA #93.777)

Medical Assistance Program (Medicaid; Title XIX) (CFDA #93.778)

Program Award Number and Year

11-W-00194/1 10/2/13–12/31/16

11-W-00191/6 10/1/10–9/30/15

75X0512 10/1/10–6/30/14

Criteria

The State Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers.

The Medicaid State Plan, section 4.19-A, states that effective with dates of admission on or after October 1, 2012, the Department of Vermont Health Access (DVHA) will reimburse qualified providers for inpatient hospital services under the prospective payment system as set forth in the State Plan known as the Diagnoses-Related Group (DRG) pricing methodology.

Condition Found

During our testwork over inpatient claim payment rates, we selected a sample of 25 payments and noted 2 instances where the payments were incorrectly calculated. Specifically,

- a. In 1 instance the payment related to an individual who had Medicare coverage for part of their stay which required a manual recalculation of the payment. When the claim was calculated, the wrong length of stay was factored into the payment calculation causing an incorrect daily rate which impacted the total payment improperly calculated. The stay should have been 92 days, however 90 days was used.
- b. In 1 instance a paper claim was received from a provider and when the payment information was calculated the State used a per diem rate for the 10/1 – 10/31/13 range, when the date of service was after 11/1/13, as such the total payment was inaccurately calculated based on the wrong per diem rate for the date of service of the claim.

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Cause

The cause of the condition found is that when a manual recalculation or paper claim is received by HP there is not adequate review of the data entry prior to claim information being entered into the system and payments to providers being processed.

Effect

The State may be paying incorrect amounts to providers based on inaccurate data being used in the payment calculations.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

\$2,691 represents the difference between the amounts paid and the amounts that should have been paid.

Recommendation

We recommend that the State review its policies and procedures over the manual calculation of inpatient payments and implement procedures to help ensure that payments are calculated accurately in accordance with the State Plan.

Management's Response and Corrective Action Plan

- A. The Department of Vermont Health Access (DVHA) agrees with this condition. The length of stay was improperly calculated due to human error. The claim in question will be recalculated and payment will be adjusted to the proper amount.
- B. The Department of Vermont Health Access (DVHA) agrees with this condition. The wrong per diem rate was inadvertently applied to the date of service due to human error. The claim in question will be recalculated with the correct per diem rate and payment will be adjusted to the proper amount.

The DVHA has verified that HP has created pricing spreadsheets which are now being used as a tool for manually priced Inpatient claims. After a claim is priced, a second person will now also work that claim in order to ensure they have resulted in the same payment before it gets entered into the system and released to the provider. Each claim that is manually priced is now saved for future audit purposes.

Scheduled Completion Date of Corrective Plan

January 31, 2015

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

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Year ended June 30, 2014

Finding 2014-056

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Healthcare Providers and Suppliers (Title XVIII) Medicare (CFDA #93.777)

Medical Assistance Program (CFDA #93.778)

Program Award Number and Year

11-W-00194/1 10/2/13–12/31/16

11-W-00191/6 10/1/10–9/30/15

75X0512 10/1/10–6/30/14

Criteria

As required by the 1115 Demonstration Waiver, Global Commitment to Health (the Waiver), once the Managed Care Organization (MCO)'s contractual obligation to the population covered under the Waiver is met, any excess revenue from capitated payments received under the Waiver must be used to (1) reduce the rate of uninsured and, or underinsured in Vermont; (2) increase the access of quality healthcare to uninsured, underinsured and Medicaid beneficiaries, (3) provide public health approaches to improve the health outcomes and the quality of life for the uninsured, underinsured and Medicaid beneficiaries; or (4) encourage the formation and maintenance of public-private partnerships in healthcare. The excess revenue is referred to as MCO investments.

Matching or cost sharing includes requirements to provide contributions (usually nonfederal) of a specified amount or percentage to match federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions). Entities are required to provide reasonable assurance that matching requirements are met using only allowable funds or costs that are properly calculated or valued. Additionally, under the standard terms and conditions of the Waiver, unless specified otherwise, all requirements of the Medicaid program apply to the Waiver, which includes the requirement that all sources of nonfederal funding be compliant with section 1903(w) of the Social Security Act and applicable regulations.

Condition Found

The Agency of Human Services (AHS) used school-based health service expenditures to fund a portion of the State's share of the Medicaid program. To determine the amount of school based health service expenditures that AHS will use annually to fund the State share of the Medicaid program, the Vermont Agency of Education (AOE) reports to AHS the total cost of school nursing and occupational therapy services provided to all students free of charge. The AOE collects information from each school district that

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reports the costs associated with the school based health services which is then submitted to AHS. AHS then multiplies the total cost incurred by the school districts by the estimated percentage of uninsured, underinsured or Medicaid eligible children in the State of Vermont in order to determine the state matching expenditures. The estimated percentage used in the calculation has been developed, in part, from data contained in the 2009 Vermont Household Health Insurance Survey, which was subsequently updated in 2012.

For the year ending June 30, 2014, the AHS utilized \$2,945,261 in expenditures related to school nurse services to secure federal matching funds. During our testwork we noted:

- A. The school nurse expenditure data collected from the local school districts was not audited or reviewed for accuracy and the AHS does not have any procedures to validate the allowability, completeness or accuracy of the data used in arriving at the match amount used. It was further noted that while the AOE has monitoring programs in place over the school districts, supporting documentation could not be provided to support that the school nurse expenditure data was part of those reviews.
- B. The submitted costs under this program were allocated to the MCO program using a rate of approximately 60.9%, which is an estimate of the Vermont population that is Medicaid eligible, uninsured, or uninsured based on the 2009 Vermont Household Health Insurance Survey (VHHIS) results provided to the State Legislature on January 15, 2010. A 2012 VHHIS survey increased this percentage to 65%; however for budgetary purposes the State has retained usage of the 60.9% level. We were unable to determine whether or not the 60.9% allocation rate is reasonable to appropriately allocate the costs.

Based on the above we were unable to determine whether the \$2,945,261 of school nurse expenditures used to support the state match were allowable or whether the related federal matching funds of approximately \$6.7 million should have been drawn down.

A similar finding was noted as part of the June 30, 2013 single audit and was reported as finding 2013-044.

Cause

The cause of the condition found is that AHS believed that if the funds were paid as an MCO investment, that it would represent an allowable Medicaid expenditure and therefore a valid source of matching funds under this program.

Effect

The State may not have provided the necessary required state match under this program. As a result, the State may have inappropriately drawn down federal funds due to a lack of required state match being made available at the time of the federal draw.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

Not determinable.

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Recommendation

We recommend that:

- A. The AHS review its existing procedures for documenting the allowability of all MCO investments to ensure that all such investments are properly accounted for within the Global Commitment Fund
- B. The AHS reviews its allocation methodologies and implement procedures to ensure that the methodology is auditable and/or work with CMS to obtain approval of the allocation methodology.

Management's Response and Corrective Action Plan

- A. There is a written Intergovernmental agreement between DVHA and AOE pertaining to Global Commitment to Health Waiver concerning School-Based Health Services. This agreement was executed in November 2011 and is good for four years. Page 2, Section III Terms (5) of this agreement gives general responsibility that *AOE shall provide information as necessary to assist in compliance of the AHS/DVHA IGA concerning the Global Commitment Waiver*. AHS will work with the Agency of Education to ensure that the reports that AOE submits are accurate and complete.
- B. The rate used to allocate costs to the MCO program is based on the results of the Vermont Household Health Insurance Survey (VHHIS) performed by Vermont Department of Finance & Regulation (DFR). DFR contracted with experts in the field of survey methodology to complete the surveys and prepare the report. While AHS did not use the more current rate set in the 2012 survey, AHS believes that the lower rate it used is reasonable. Using a lower rate avoids the risk of an updated rate that is more Federal and less State share thus protecting the state budget process from swings in the survey in a succeeding year. There is also no requirement to use the highest rate available.

Scheduled Completion Date of Corrective Plan

- A. September 30, 2015
- B. No further action required

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

Rejoinder

- A. While the Agency of Human Services may enter into an agreement with the Agency of Education (AOE) for the AOE to “*provide information as necessary to assist in compliance of the AHS/DVHA IGA concerning the Global Commitment Waiver*” the AHS is ultimately responsible for compliance and ensuring the integrity of the data used as match. If the AOE fails to perform the necessary procedures to ensure data submitted is complete and accurate, the AHS must implement corrective action or perform the necessary procedures to ensure that the matching funds they use are in compliance with Federal regulations.

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- B. We agree that there is no requirement for the AHS to use the highest rate. The condition found in item c above relates to not having sufficient documentation, or Federal approval, for the 60.9% rate used in the allocation. Further, the AHS provided sufficient documentation to show that the allocation is reasonable, is a proper allocation method or that it is auditable.

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Finding 2014-057

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Healthcare Providers and Suppliers (Title XVIII) Medicare (CFDA #93.777)

Medical Assistance Program (CFDA #93.778)

Program Award Number and Year

11-W-00194/1 10/2/13–12/31/16

11-W-00191/6 10/1/10–9/30/15

75X0512 10/1/10–9/30/15

Criteria

Procurement

States, and governmental subrecipients of states, will use the same state policies and procedures used for procurements from nonfederal funds. They also must ensure that every purchase order or other contract includes any clauses required by federal statutes and executive orders and their implementing regulations

Subrecipient Monitoring

A pass-through entity is responsible for:

- Determining Subrecipient Eligibility – a pass-through entity is responsible for determining whether an applicant has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before award (2 CFR section 25.110 and Appendix A to 2 CFR part 25.
- Award Identification – At the time of the subaward, identifying to the subrecipient the federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.
- During-the-Award Monitoring – Monitoring the subrecipients use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- Subrecipient Audits – (1) Ensuring that subrecipients expending \$500,000 or more in federal awards during the subrecipient’s fiscal year year-end and that the required audits are completed within 9

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months of the end of the subrecipients audit period; (2) issuing a management decision on audit findings within 6 months after receipt of the subrecipients audit report; and (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

- Pass-Through Entity Impact – Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable Federal regulations

FFATA Reporting

Grants and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS) and report subaward data through FSRS. Subawards are to be reported no later than the last day of the month following the month in which the subaward/subaward amendment obligation was made or the contract award/subcontract modification was made.

Condition Found

Background

The State of Vermont’s procurement guidelines are detailed in State Bulletin 3.5 which establishes the general policy and minimum standards for soliciting services and products from vendors outside of state government, processing the related contract(s), and overseeing established contracts through their conclusion. Key provisions of Bulletin 3.5 include when to use a contract, when to use a grant, the State’s bidding process and use of contracting plans which allow for alternative treatments for contracts that cannot be accommodated by the Bulletin.

In November 2008 the Agency of Human Services requested approval of a contracting plan under Bulletin 3.5, indicating that the “class of contracts concerned is that of grants for the provision of services to Vermonters by community organizations that have been identified in the funding authorization.” The contracting plan, that was approved, and subsequently amended in May 2011, included the following information:

- The Executive Summary outlined that OMB’s categorization of vendors versus subrecipients is different than the State’s in that the State’s differentiation is based on the form of the agreement and the approvals required. The Request concluded that the difference of categorization allows for the existence of grants according to Bulletin 5.0 that are procurement actions according to the OMB.
- Exhibit B outlined the description of need for a contracting plan indicating that the Agency of Human Services (AHS) administers a substantial amount of expenditures and agreements with community partners that are in effect procurement (or vendor) grants and that the nature of these agreements are partnerships with the AHS to carry out both state and federal program goals. This section continues to state that, “yet the agreements are not sub-awards in which the state passes the federal funds on to a subrecipient that assumes the state’s role in implementing the federal program. The Agency of Human Services established strategic direction for implementation of the roles, responsibilities and outcome expectations of the program...”

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- Exhibit B, section II continues by indicating that the covered agreements are procurements of services as defined by OMB and therefore not subject to the State's procurement policy AND include at least one of the following elements:
- The recipients are not solely subject to selection by AHS. They are identified by federal or state statute or regulation. or
- Grant funding is established in the state budget process. or
- The agreements are defines and have traditionally been administered as grants in the state's terminology.

The May 2011 amendment to the contracting plan expanded upon the list if entities that fell under procurement grants and clarified those agreements must qualify under the Elements of Procurement Grants in order to be included under the contracting plan. Under these Elements it was stated that covered agreements are procurements of services and defines by OMB Circular A-133 and therefore subject to Bulletin 3.5 AND include at least one of the following elements:

- Directed by State law, regulation or appropriation
- Directed by Federal law, regulation or program
- Recipient was named in award to State
- Recipient is by definition in the terms of the award to AHS the only qualified recipient, or
- Recipient has received prior state funding in connection with an ongoing program.

The State of Vermont's subrecipient guidelines are detailed in State Bulletin 5 which sets the policies and procedures, governing the issuing of federally funded grants to subrecipients that are covered by the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This Bulletin details the pass-through entities responsibilities; guidelines for distinguishing between a vendor and a subrecipient, subrecipient monitoring requirements and subrecipient grant tracking which requires agencies to data enter key award information into the State's accounting system, VIION, within 10 days of the grant execution date.

OMB Circular A-133 defines a subrecipient as a nonfederal entity that expends federal awards received from a pass-through entity to carry out a federal program, but does not include an individual that is a beneficiary of such a program. A subrecipient may also be a recipient of other federal awards directly from a federal awarding agency; and a vendor as a dealer, distributor, merchant, or other seller providing goods or services that are required for the conduct of a federal program. These goods or services may be for an organization's own use or for the use of beneficiaries of the federal program. Section. 210 of Circular A-133 also provides guidance on distinguishing subrecipients from vendors.

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Findings

During our testwork over procurement and subrecipient monitoring we noted the following:

- I. We reviewed the AHS' approved contracting plan and noted that it appeared to have inconsistencies with federal regulations. Specifically, we noted the following:
 - a. While §.210 of Circular A-133 provides guidance on distinguishing subrecipients from vendors, it is the substance of the relationship that is more important than the form of the agreement.
 - b. Exhibit B, section II of the Contracting Plan indicates that covered agreements are procurements of services as defined by OMB and therefore not subject to the State's procurement policy; however AHS has not provided supporting details or documentation as to how the covered agreements meet the characteristics of a vendor and are therefore procurements. Further, AHS indicates that for an agreement to qualify as a procurement grant it must also meet 1 of the 5 elements noted in the May 2011 amendment to the contracting plan; however these criteria do not address the substance of the relationship but rather the logistical aspects for whom will be awarded. For example just because a recipient is directed by state law or named in the award to the state does not mean that they are not a subrecipient.
 - c. We note that the 5 elements outlined above from the May 2011 amendment present a valid argument for why these agreements should not go through a competitive bid process under Bulletin 3.5; however it is not clear as to why they wouldn't be sole source contracts under Bulletin 3.5, if they actually meet the definition of being a contractual relationship.
- II. We requested an expenditure breakout of all grant payments made during the fiscal year under audit.
 - a. As part of this request we noted that AHS records both procurement grants and subrecipient grants to the same chart strings within their accounting system and as a result we are unable to determine the type of award until the agreement is reviewed and Agency personnel inform us that the arrangement falls under the procurement grant contracting plan.

Additionally we noted that the form used to engage entities falling under the procurement grant contracting plan is the same as what is used for subrecipient awards.
 - b. The agreement use terminology that is indicative of a subrecipient award – grantee, grant award – which adds to the confusion as to what type of award is actually being given.
 - In the Customary Provisions attachment there is a section regarding the requirement to have a single audit and the clause states, “In the case that this Agreement is a Grant”; however the State has not made it clear whether the agreement is a grant. Further, the use of the word “Grant” throughout the document might lead the entity to believe they have been awarded a grant.
 - c. We noted that many departments within AHS monitor procurement grant recipients in the same manner as they monitor subrecipient awards; further adding to the confusion as to what type of award is actually being given.

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- III. As AHS was unable to provide expenditure breakouts of procurement awards separate from subrecipient awards and given the lack of written documentation justifying which agreements are procurements and which are subrecipients, we selected 25 grantees across 6 Agency of Human Service's departments and performed subrecipient monitoring testwork over each grantee. As part of this testwork we noted the following;
- a. In 3 instances, the grantees selected for testwork were listed in the State's grant tracking module as procurement grants and as a result it could not be determined if the entity needed an A-133 audit report. We were unable to determine based on the AHS' documentation whether these awards were procurements or subawards.
 - The grant tracking module is used by the State to keep track of grants funds issued across all departments. Departments are responsible for entering the grant awards into this system in order for the Department of Finance and Management to designate a primary pass-through department to be responsible for reviewing the subrecipients A-133 audit. The grant tracking module is the place where the receipt and review of the audit for subrecipients is documented so all Departments can have access to the information.
 - b. In 1 instance the grantee selected for testwork had no expenditures reported in the grant tracking module and as a result it could not be determined if the entity needed an A-133 audit report. We were unable to determine based on the AHS' documentation whether this award was procurement or subaward.
 - c. In 1 instance the entity's grant agreement did not contain accurate Federal award information identifying Medicaid as the source of funds. As a result the grantee was not properly informed of the federal award information for the payments they received, which may result in the reporting of inaccurate award information in the entity's SEFA.
 - d. In 4 instances we noted that although programmatic monitoring procedures were performed over the grantees by the Department, it was not evident that the Department obtained actual expenditure information to ensure that the grant funds were being expended during the grant period as outlined in the grant payment provisions, and no financial data was submitted with payment request. The request for funds was one quarter of the award amount, rather than the actual expenditures incurred by the subrecipient. As a result, we were unable to determine whether these grantees were properly monitored and whether the grant expenditures were incurred for allowable items. Furthermore, the grant payment provisions state that any grant funds not expended for the purposes for which the grant is awarded at the end of the grant term shall be returned to the State. As the Department does not receive detailed expenditure reports, we are unable to determine that all grant funds were expended during the grant period, or if any funds were required to be returned.
- IV. Using the grantees selected in item III above, we also tested FFATA reporting requirements over this population and noted the following:
- a. In 11 instances we noted that the subgrants were not reported as they were not considered to be grant agreements under the AHS contracting plan.

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- b. In 6 instances the subgrants were not reported as they were not considered to be grant agreements under the AHS contracting plan. Each of the subgrants was a Designated Agency (DA) or a Specialized Service Agency (SSA) in which the Agency has entered into an agreement that covers a variety of services that are paid for using funds from both the State of Vermont general fund and a variety of federal funds, including the Medicaid program.

In summary, AHS has not sufficiently documented its justification for whether a grantee is a vendor or subrecipient based on the substance of the agreement and the contractual document used to engage entities is unclear as to whether the relationship and award is a procurement or subrecipient award. As a result it is unclear what Federal regulations apply to these arrangements.

A similar finding was noted as part of the June 30, 2013 audit report as findings 2013-041 and 2013-042.

Cause

The cause of the condition found is that AHS has not sufficiently documented its justification for whether a grantee is a vendor or a subrecipient based on the substance of the agreement and as a result it is unclear what federal regulations apply to these arrangements.

Effect

The effect of the condition found is that the subrecipients may be unable to appropriately account for the funds on their Schedule of Expenditure of Federal Awards, costs may not be spent in accordance with federal regulations, subrecipients may not be monitored in accordance with federal regulations and subawards may not be appropriately reported under FFATA.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal controls.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency of Human Services review its granting procedures to ensure that grant awards are accurately executed. We also recommend that the Agency review its subrecipient monitoring procedures and implement the necessary policies and procedures to help ensure that subrecipients are monitored in accordance with Federal regulations.

Management's Response and Corrective Action

Finding Section I:

- (a,b,c)The Agency agrees that the approved contract plan may have inconsistencies with Federal regulations and needs to be updated. The update will include guidance on substance of relationships that comprise procurement grants and subawards. It will require documentation of the determination of an agreement as to being either a procurement grant or a subaward prior to

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issuance. Also, the plan will address the usage of sole source contracts as an alternative if using such form has an equal benefit as using a procurement grant form.

Finding Section II:

- (a) The Agency will add a separate class code in its chart of accounts for procurement grants so that a list can more easily be compiled without having to pull all the agreements. Presently, identification is made using the VISION Grant Module. In this module, procurement grants do not have A-133 or FFATA reporting boxes checked, whereas subawards do, thus creating a distinction. The Agency will maintain this procedure with regard to procurement grants and subawards.
- (b&c) The Agency agrees that some agreements have not been clear or improperly labeled as to the type of agreement. There have also been references to Federal award requirements when not needed. These mistakes have also contributed to the type of monitoring anticipated by departments. The use of a procurement – subaward determination form will help identify what agreements are, so that agreement write-up and management of them will be more consistent. The Agency will also update procedures for procurement grants to insure proper usage of terminology and exclude references to Federal requirements in the agreements.

Finding Section III:

The Agency agrees that there is a lack of clarity in distinguishing procurement grants from subawards which has brought in question the instances cited in items (a.) and (b.) To address this, the Agency will update its procedures to better distinguish procurement grants from subawards, create a class code in its chart of accounts for procurement grants, and require documentation of determination of agreements. This should assist with how agreements are handled and improve consistency. With regard to item (c.) the Agency agrees and the department responsible will review its procedures for amending agreements, which lead to this condition. The Agency agrees with item (d.) The financial status report that the grantees currently submit does have wording that certifies actual expenditure but only shows a lump sum total. The Department will expand on its reporting requirement for more detail and verify that funds are fully expended. Departments will also be required to develop monitoring plans per AOA Bulletin 5.0 by May 15, 2015 to which improved monitoring procedures will be developed.

Finding Section IV:

- (a) Of the eleven agreements cited, two agreements, The Vermont Association for the Blind and Lund Family Center are considered sub-awards and were inadvertently not reported by the Department for Aging and Disability and Department for Children & Families, respectively. This will be corrected. Nine of the eleven agreements questioned are considered to be procurement grants by the Agency and covered by the agency contract plan and therefore not reported under FFATA. The Agency agrees that there may be a lack of consistency in treatment, clarity, and documentation of the relationship for these agreements. The Agency will take the actions describe in section II to correct this problem.

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- (b). The Agency has treated these agreements as procurement grants, but acknowledges that the relationship has not been entirely clear. These agreements include two payment mechanisms that indicate both a procurement and subaward arrangement for a variety of services. These agreements would be deemed to be carrying out a portion of a substantive federal program activity under 2 CFR 170, Requirements for FFATA Implementation. They therefore represent two types of relationships – subrecipient and vendor/contractor. Going forward, the grant portion of the DA agreements (and SA) shall be identified and treated as grant payments to a Sub-recipient. The agreement shall clearly segregate the grant payments from the fees-for service payments, identify federal program requirements, include CFDA and DUNS number, and be reported as required by FFATA.

The Department shall also develop procedures for all of its grant agreements to make a determination as to whether an agreement is considered to be a subrecipient, procurement of services, or a combination of both. The Department will maintain documentation to support the rationale. The new Agency of Administration Bulletin 5 shall serve as the policy for subrecipient and procurement of services determination.

In summary, AHS is developing enhanced procedures for making a subrecipient/contractor determination which will be implemented agency-wide. These procedures include a checklist to be completed by grant managers and reviewed by contract/ grants staff in the department’s business office. The checklist will also be included in the official grant file to document the determination. We are making improvements in the wording of our grant agreement documents so that there is a clear distinction between subrecipient and contractual agreements and that all Federal requirements that accompany a subrecipient agreement will be explicitly stated.

Scheduled Completion Date of Corrective Action Plan

June 30, 2015

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief, 802-871-3006

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Finding 2014-058

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Healthcare Providers and Suppliers (Title XVIII) Medicare (CFDA #93.777)

Medical Assistance Program (Medicaid; Title XIX) (CFDA #93.778)

Program Award Number and Year

11-W-00194/1 1/1/11–12/31/16

11-W-00191/6 10/1/10–9/30/15

75X0512 10/1/10–6/30/14

Criteria

Eligibility for Individuals:

The State Medicaid agency or its designee is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plan (42 CFR section 431.10).

Condition Found

During testwork over the eligibility process we noted that the Department of Children and Families (the Department) utilizes the ACCESS system, the State of Vermont’s benefit eligibility maintenance system, to determine eligibility for the Medicaid program. After the eligibility specialist data enters financial information into the ACCESS system, ACCESS determines whether or not the applicant is eligible for benefits. The Department does not perform a supervisory review of the information entered to ensure completeness and accuracy. Although the Department has a Quality Control unit which conducts reviews of Medicaid, due to the implementation of the MAGI eligibility rules and Federal guidance to conduct quality control reviews through pilot projects, we note that the quality control function was limited during fiscal 2014 and as such was not an effective compensating control for the internal control deficiency noted. The Department ended its quality control review on September 30, 2013 to being a new pilot program over the eligibility determinations made within Vermont Health Connect, the State’s new Health Care Exchange. The new review pilots required by CMS focus on eligibility determinations within Vermont Health Connect, and do not cover any individuals who are not enrolled through this system. Due to the challenges getting individuals enrolled within Vermont Health Connect, many individuals remained within the ACCESS system, and were not transitioned into Vermont Health Connect during SFY14. As the quality control reviews that focused on individuals within the ACCESS system ended, there was a portion of the year from September 30, 2013 through June 30, 2014 where no eligibility reviews were taking place over this population.

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During the year ending June 30, 2012, a test of design related to the IT general control environment of the ACCESS system was performed. As part of this review, a number of control deficiencies were identified related to access to programs and data, change management, and computer operations. As a result of the control deficiencies, a test of operating effectiveness of IT general controls or application controls specific to the Medicaid program could not be performed. During the period ending June 30, 2014, several inquiries were made with the Department and it was noted that the control deficiencies identified during the review for the year ending June 30, 2012 had not been corrected. As a result, we are unable to test the application controls specific to the Medicaid program contained within the ACCESS system. As a result, we are unable to conclude that there are adequate controls in place surrounding the eligibility determination process for this program and we are unable to rely on the IT controls due to the control deficiencies.

Cause

The cause of the condition as noted above is that the Department relies on the ACCESS system and does not perform an independent review to ensure that the data entered into the ACCESS system is accurate and that the ACCESS system has determined benefit eligibility determinations correctly.

Effect

The effect of the condition found is that errors in eligibility determinations could occur and the Department does not have a mechanism in place to identify errors made.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its procedures and implement controls to ensure that a quality control review is performed over the eligibility determinations made by the ACCESS in order to verify that such eligibility determinations are accurate. This would include procedures to ensure that the data entered into the ACCESS system that is used to determine eligibility is accurate and properly supported with external documentation. In addition, we recommend that the Department review the internal control deficiencies related to the ACCESS system identified during the period ending June 30, 2012 and take appropriate actions to ensure that all deficiencies related to access to program data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the ACCESS system.

Management's Response and Corrective Action Plan

The Department agrees with the finding.

As noted in the finding, the State is implementing a new eligibility system within Vermont Health Connect (VHC) to replace the old ACCESS system. Quality control has been limited as the majority of State effort is directed towards this new system with limited resources to apply to eligibility of individuals that remain in the old system. Vermont had an approved MAGI Medicaid transition plan which allowed it to delay reviews for the October 2013 – March 2014 reviews by bumping their review dates out six months. In April 2014,

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the State began its renewal process which required that those clients transition from ACCESS to VHC. The State then discovered that 60% of the clients did not successfully transition from ACCESS to VHC as planned and discussed modifying the approach with CMS. CMS agreed with the State's approach and is expected to confirm this in writing at a later point. Currently, DCF IT is addressing control deficiencies that surround all DVF programs that utilize ACCESS. As soon as the new eligibility system is in place, DCF will have more resources to apply to quality assurance and control issues.

Scheduled Completion Date of Corrective Action Plan

Expectation of installing new eligibility system and resuming of quality control efforts – FY 2017

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief, 802-871-3006

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Year ended June 30, 2014

Medicaid Finding 2014-059

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster:

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Healthcare Providers and Suppliers (Title XVIII) Medicare (CFDA #93.777)

Medical Assistance Program (Medicaid; Title XIX) (CFDA #93.778)

Program Award Number and Year

11-W-00194/1 1/1/11–12/31/16

11-W-00191/6 10/1/10–9/30/15

75X0512 10/1/10–6/30/14

Criteria

As described in §310(b)(3) of OMB Circular A-133, auditees must complete the Schedule of Expenditures of Federal Awards (SEFA) and include CFDA numbers provided in Federal awards/subawards and associated expenditures.

Condition Found

During our test work over the SEFA we noted the original SEFA prepared by the Agency of Human Services (the Agency) we noted the following:

- A. Qualifying states may apply certain Medicaid expenditures against their available allotment from the Children’s Health Insurance Program (CHIP). The Centers for Medicaid and Medicare Services has deemed the State of Vermont (the State) a qualifying state. As such, the State reported \$6.8 million in expenditures for the year ending June 30, 2014 as qualifying expenditures. Amounts transferred into the Medicaid program are subject to the requirements of the Medicaid program and should be reported on the SEFA as Medicaid expenditures. During our review of the SEFA, we noted that the Agency reported \$6.8 million of qualifying CHIP expenditures for the year ending June 30, 2014 within the CHIP program instead of the Medicaid program as required. The error was subsequently corrected by the Agency after our inquiry.
- B. The Agency did not include \$4.5 million of prior year adjustments that related to expenditures in the prior year, which were reported on one of the current year quarterly CMS-64 report. The error was subsequently corrected by the Agency after our inquiry.

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Cause

The cause of the condition found was primarily a result of insufficient review controls to ensure that expenditures related to the Medicaid program as captured on the CMS 64 report are properly captured and reported correctly within the SEFA. In addition, prior quarter adjustments that relate to prior years for federal programs are generally considered immaterial as a whole and are not routinely captured and reported on the SEFA.

Effect

The effect of the condition found is that the Agency initially did not accurately prepare the current year SEFA.

The condition found does not appear to be systemic however is considered to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend the Agency review its existing policy for preparation of the SEFA to ensure all expenditures are captured and reported accurately. The Agency should include as part of its review process an analysis of prior quarter adjustments that related to prior year expenditures to determine whether or not on a case by case basis if the adjustment should be reflected within the SEFA.

Management's Response and Corrective Action Plan

The Agency agrees with the conditions of A. and B. and has made the corrections.

The AHS Grants unit procedure YE-2 Schedule of Expenditure of Federal Awards (SEFA) procedure has been updated to include researching, reviewing and making a determination to properly state the prior quarter adjustments reported in the current year and CHIP transferred to Medicaid.

Scheduled Completion Date of Corrective Action Plan

Procedure update 2/20/15 for Implementation of SFY'15 preparation.

Contact for Corrective Action Plan

Rob Roberts, AHS Audit Chief 802-871-3006

Jill Gould – AHS-CO, 802-871-3255

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Finding 2014-060

U.S. Department of Homeland Security

Program Name and CFDA Number

Homeland Security Grant Program (CFDA #97.067)

Program Award Number and Year

2009-SS-T9-0075	08/01/2009–11/30/2013
2010-SS-T0-0083	08/01/2010–07/31/2013
EMW-2011-SS-00038	09/01/2011–08/31/2014
EMW-2012-SS-00013	09/01/2012–08/31/2014
EMW-2013-SS-00063	09/01/2013–08/31/2015

Criteria

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act (FFATA) Subaward Reporting System (FSRS) and report subaward data through FSRS. Subawards are to be reported no later than the last day of the month following the month in which the subaward/subaward amendment obligation was made or the subcontract award/subcontract modification was made.

The SF-425, *Federal Financial Report*, is required to be filed on a quarterly basis.

Condition Found

During our testwork over federal reporting at the Vermont Department of Public Safety (the Department), we noted the following:

- A. For 1 of 15 subrecipients selected for testwork, we noted the grant/amendment was reported in the FSRS system, however it was not reported within the timeframe required.
- B. For 2 of 15 subrecipients selected for testwork, we were unable to verify that the grants/amendments were properly reported.
- C. For 1 of 15 subrecipients selected for testwork, we noted the Department reported within FSRS the amount of an expenditure made to this subrecipient rather than the amount of the grant as required.
- D. For 1 of 8 SF-425 federal financial reports selected for testwork, we noted the recipient share was reported by the Department. There is no recipient share for this federal grant. While the report was reviewed and approved prior to submission, the error was not caught.
- E. For 1 of 8 SF-425 federal financial reports selected for testwork, we noted that there was no evidence the first level of review had been completed for this report prior to the Unit Director signing the report indicating it should be submitted.

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- F. For 1 of 8 SF-425 federal financial reports selected for testwork, we noted that there were 3 revisions to the final report for the 2010 grant. The final report was due October 30, 2013 however, the report was not filed until December 2013. We noted that the Department had filed a version of the final report on October 30, 2013, however the amounts reported were inaccurate and the report was primarily filed in an effort to submit the final report on time. Subsequent to the filing of the final report in October 2013, the Department filed 2 revised reports.
- G. For 1 of 8 SF-425 federal financial reports selected for testwork, we noted the final report for the 2009 grant indicated it was for the incorrect reporting period.

Cause

The cause of the condition found is primarily due to staffing changes within the Department as well as an overall increase in the number of grants issued and monitored by the Department.

Effect

The effect of the condition found is that Department is that federal reports were not filed timely and/or accurately.

The condition found appears to be systemic in nature and is considered to be a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its written procedures and controls to ensure that they are able to track the issuance date and amounts of all subawards to ensure that the all required FFATA reports are filed timely in accordance with federal regulations. Also, we recommended the Department review its written procedures and controls to ensure there is a sufficient review over the SF-425 federal financial reports filed to verify that they are complete and accurate prior to submission.

Management's Response and Corrective Action Plan

A-C: The Department plans to be more diligent with the entering and updating of data in the FSRS within the federal regulations timeframe. Understaffing issues alongside high work volume are main justifications as to this shortfall. Even so, we do keep track of FFATA entries on the cover page of all subgrant agreement documents. There is a check box and a space to date and initial when the entry was made, or simply list "Not Applicable" if the award does not meet the \$25,000 threshold. Additionally, during annual employee performance evaluation reviews, the Supervisor completes a random check of subgrant files which includes ensuring that the file is in order.

Although FFATA is discussed in the Grant Management Process Manual, we will take the initiative of revising this manual section to be more descriptive and informational by referencing a process document we will develop that explains the procedure in its entirety.

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D-G: The Department will take the following steps to ensure a more thorough review of the SF 425's that are developed and submitted to the Federal government. One, the internal control process for the review of these reports has evolved since our previous audit. Most recently, near the end of calendar year 2014, we implemented a process change requiring only one level of review

We plan to adjust this most recent internal control process as follows: 1.) The Financial Grants Management Specialist develops the SF 425 with back-up, 2.) this packet of information is sent to the Supervisor (or another qualified reviewer) to review and sign-off on the form. In addition, a separate file folder, to be placed with the main award file, will be created to house only the SF 425 reports with their back-up documentation for the entire life of the award. At the front of this file there will be a brief informational sheet that outlines the core award information to aid in the proper review and data verification of the SF 425 reports. Because this folder will contain all of the SF 425's previously filed to the Federal government, it will allow the reviewers to verify the current values being reported and any other information to be noted in the SF 425 report with greater accuracy.

Scheduled Completion Date of Corrective Action Plan

May 2015 – Granting Plan update due to Vermont Department of Finance and Management

Contact for Corrective Action Plan

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Finding 2014-061

U.S. Department of Homeland Security

Program Name and CFDA Number

Homeland Security Grant Program (CFDA #97.067)

Program Award Number and Year

2009-SS-T9-0075 08/01/2009–11/30/2013

2010-SS-T0-0083 08/01/2010–07/31/2013

EMW-2011-SS-00038 09/01/2011–08/31/2014

EMW-2012-SS-00013 09/01/2012–08/31/2014

EMW-2013-SS-00063 09/01/2013–08/31/2015

Criteria

As required by A-102 Common Rule, nonfederal entities receiving federal awards are required to establish and maintain internal controls in order to provide reasonable assurance that federal awards are expended only for allowable activities and that the costs of goods and services charged to federal awards are allowable and in accordance with the applicable cost principles.

Condition Found

During our testwork over equipment management at the Vermont Department of Public Safety (the Department), we noted that for 4 of 10 equipment transactions selected for testwork, the Department was unable to locate and provide the signed approval for the purchases. As a result, we were unable to conclude that the equipment purchased had been properly approved.

Cause

The cause of the condition found is due to insufficient controls to ensure that all required documentation is maintained together to support the approval of purchases of items charged to the program.

Effect

The effect of the condition found is that Department has not maintained complete and accurate records related to equipment.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

Not determinable.

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Recommendation

We recommend that the Department review its written procedures and implement controls to ensure that all required documentation is maintained and purchases are approved related to equipment that is charged to the grant.

Management's Response and Corrective Action Plan

The DPS Procurement Office recently rewrote internal purchasing procedures to bolster language and clarify the processes. Along with incorporating more robust procedures, the Department is actively seeking an Electronic Documentation Management System that was put out to bid in 2014. A feature of the software would be to allow for electronically tracking and approving all Department purchases, and manage and store the large number of invoices received. A second initiative the Department is pursuing is establishing a Centralized Procurement Office, where all purchases and contracts are initiated by the centralized office thus ensuring greater internal control over the purchasing process.

Scheduled Completion Date of Corrective Action Plan

January 1, 2015 – Revised internal purchasing procedures implemented

End of Calendar Year 2015 – Electronic Document Management System

End of Calendar Year – Centralized Procurement Office

Contact for Corrective Action Plan

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Joanne Chadwick: joanne.chadwick@state.vt.us; (802) 241-5496

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Finding 2014-062

U.S. Department of Homeland Security

Program Name and CFDA Number

Homeland Security Grant Program (CFDA #97.067)

Program Award Number and Year

2009-SS-T9-0075	08/01/2009–11/30/2013
2010-SS-T0-0083	08/01/2010–07/31/2013
EMW-2011-SS-00038	09/01/2011–08/31/2014
EMW-2012-SS-00013	09/01/2012–08/31/2014
EMW-2013-SS-00063	09/01/2013–08/31/2015

Criteria

A primary pass-through entity is required to perform during the award monitoring over the subrecipients use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

A primary pass-through entity is required to (1) ensure that subrecipients expending \$500,000 or more in federal awards during the subrecipient’s fiscal year for fiscal years ending after December 31, 2003 as provided in OMB Circular A-133 have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient’s fiscal year-end; (2) issue a management decision on audit findings within 6 months after receipt of the subrecipient’s audit report; and (3) ensure that the subrecipient takes timely and appropriate corrective action on all audit findings.

Condition Found

During our testwork over subrecipient monitoring at the Vermont Department of Public Safety (the Department), we noted the following:

- A. The Department has an internal policy to perform financial monitoring over all subrecipients within a 3 year cycle. We noted during state fiscal year 2014, there were approximately 69 subgrants under which payments were made. Given this population size and the 3 year monitoring cycle, we noted that approximately 23 monitoring visits would need to be performed each year. However, only 2 monitoring visits were performed for the year ending June 30, 2014, and as such the Department does not appear to be in compliance with their financial monitoring policy.
- B. The State of Vermont (the State) utilizes a grant tracking module within the VISION system (the State’s centralized accounting system) that helps track subrecipient grants that are entered into by the State, such as the subrecipient name, the grant period and the amount of funds granted. This information is used annually to solicit information from the State’s subrecipients concerning their total federal funds expended during the year and whether or not the subrecipient is required to have an

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A-133 audit. If an A-133 audit is required, the State will designate a primary pass-through entity within the State to obtain and review the results of the subrecipient's A-133 audit. The result of this review is documented within the VISION grant tracking module by the designated primary pass-through entity.

For 3 of 15 subrecipients selected for testwork, we the Department is not the designated primary pass-through entity for these subrecipients, as designed by the Department of Finance and Management. We noted that the Department does not have any policies or procedures to review the results of subrecipient A-133 audit reports for those entities that they grant funds to in which the Department is not the primary pass through entity. As such, the Department would be unaware if there are any findings related to this program.

Cause

The cause of the condition found is primarily due to a large increase in the number of grantees under this program as well as changes within the staffing within the Department.

Effect

The effect of the condition found is that the Department may not be able to timely identify noncompliance at the subrecipient level on a timely basis.

The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its existing procedures to ensure it obtains and reviews all of its subrecipients annual A-133 audit reports to determine whether or not there are any material compliance findings or internal control deficiencies related to programs funded by the Department. The Department should seek corrective actions from the sub-recipient as necessary. In addition, the Department should review its during the award monitoring procedures to ensure that sufficient during the award monitoring is performed over subrecipients on a timely basis.

Management's Response and Corrective Action Plan

Since 2008, the State of Vermont has experienced economic challenges that have led to statewide position reductions. The Department has lost many positions and gained volume and complexity in our Federal programs. We continue to evolve our processes to try and deal with these challenges.

The Department understood the increasing number of subgrants requiring us to better staff our audit function. In FY 2008, one of the Department's two audit positions was lost due to a Reduction in Force (RIF). As part of a division reorganization this remaining audit position was reclassified at the beginning of FY2014 into a leadership position to partly oversee what would become an audit unit within the division itself. This Policy,

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Audit, and Compliance Unit then requested two new Audit Analyst positions that were both filled by May 2014. We now have a very detailed audit schedule that we are implementing in a timely fashion

Changes to the Audit Plan due to staff shortage situations are addressed in DPS Monitoring Guide on page 9. However, procedures will be updated by May 2015 in accordance with the State of Vermont Secretary of Administration Bulletin 5 revision that became effective on December 26, 2014. Bulletin 5 revision requires new Granting Plans to be submitted for review by the Commissioner of Finance & Management by May 2015. The criteria of Granting Plans will be released to departments in January 2015.

Scheduled Completion Date of Corrective Action Plan

May 2015 – Granting Plan update due to Vermont Department of Finance and Management

Contact for Corrective Action Plan

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Joanne Chadwick: joanne.chadwick@state.vt.us; (802) 241-5496

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Finding 2014-063

U.S. Department of Homeland Security

Program Name and CFDA Number

Homeland Security Grant Program (CFDA #97.067)

Program Award Number and Year

2009-SS-T9-0075	08/01/2009–11/30/2013
2010-SS-T0-0083	08/01/2010–07/31/2013
EMW-2011-SS-00038	09/01/2011–08/31/2014
EMW-2012-SS-00013	09/01/2012–08/31/2014
EMW-2013-SS-00063	09/01/2013–08/31/2015

Criteria

States must obligate funds for subgrants within 45 days after the date of the grant award (6 USC 605(c)(1)). “Obligate” has the same meaning as in Federal appropriations law, i.e., there must be an action by the State to establish a firm commitment; the commitment must be unconditional on the part of the State; there must be documentary evidence of the commitment, and the award terms must be communicated to the subgrantee and, if applicable, accepted by the grantee.

Condition Found

During our testwork over subgrant awards at the Vermont Department of Public Safety (the Department), we were unable to obtain documentation to support that the Department had obligated funds for subgrants within 45 days after the date of the grant award for all 15 of the subgrants selected for testwork. As a result, we were unable to conclude that the Department was in compliance with the above stated criteria.

As similar finding was noted as part of an Office of the Inspector General audit performed over the Homeland Security Program during state fiscal year 2014 for the grant years 2010 – 2012.

Cause

The cause of the condition found is primarily due to the fact that the procedures in place by the Department were to issue a Memorandum of Understanding (MOU) that contained a high level overview indicating how the funds would be spent instead of an establishment of a firm commitment by the Department at the subgrantee level as required by the federal compliance requirement.

Effect

The effect of the condition found is that the Department may not be obligating Homeland Security Grant Program funds within the obligation period.

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The condition found appears to be systemic in nature and is considered to be a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its existing procedures to ensure there is an action by the State to establish a firm commitment that is unconditional on the part of the State, there is documentary evidence of the commitment, and the award terms are communicated to the subgrantee and, if applicable, accepted by the grantee with the 45 obligation period.

Management's Response and Corrective Action Plan

The KPMG review period ended June 30, 2014. DPS has subsequently resolved this process as documented in our response to OIG report (OIG-14-48) released on March 7, 2014 with a follow-up memo dated September 5, 2014, The September memo documented the status for this recommendation as resolved and closed. That report states that the following compliance has been achieved: "The Vermont DPS reviewed its obligation and approval process and implemented several changes to help shorten the process. First, the DPS modified its MOUs to include the Rules of Engagement for the Working Group. This outlines the process and ramifications if funding is not obligated in a timely fashion. Second, the DPS also modified its RFP process for equipment purchases. The RFPs are now released ahead of the Federal award to help shorten the process. For FY 2014, RFPs were posted June 13, 2014, and proposals are due back to the DPS by August 8, 2014. Applications will be reviewed the week of September 15, 2014, and awards will be made by November 3, 2014, allowing the DPS to meet the 45-day pass-through requirement. Third, the DPS developed a plan for FY 2015 that focuses on FEMA's new project-based application, ensuring DPS identifies projects before the State's application is submitted to FEMA. The DPS will start its FY 2015 RFP process in November or December. Then, the DPS will approve proposals prior to the FEMA application being submitted. While awaiting the Federal award, the DPS will prepare sub-grants so that they are ready for execution immediately following the acceptance of the Federal award. FEMA has determined that the corrective measures implemented fully meet the intent of the recommendation and requested the recommendation be closed."

Scheduled Completion Date of Corrective Action Plan

Completed

Contact for Corrective Action Plan

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