Report of the Vermont State Auditor

February 15, 2011

SUMMARY OF AUDIT AND REVIEW FINDINGS – FY 2010

Thomas M. Salmon, CPA
Vermont State Auditor

Mission Statement

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

THOMAS M. SALMON, CPA
STATE AUDITOR

STATE OF VERMONT
OFFICE OF THE STATE AUDITOR

February 15, 2011

Members of the Senate Appropriations Committee
Members of the House Appropriations Committee

Dear Colleagues:

In accordance with 32 VSA §163, I am providing you with this summary of findings and recommendations resulting from financial, compliance and performance audits conducted or subcontracted by my office during fiscal year 2010 (FY2010). The summary provides information about the number of findings per audit and the significance of the finding, if measurable.

Generally, trends in the volume, type and significance of findings may be tracked for the Federal A-133 Compliance (A-133) audit and the Comprehensive Annual Financial Report (CAFR) audit. Specifically, with regard to A-133 audits, we note that certain federal programs administered by the State have received the same audit finding for multiple years which has resulted in increased audit fees. For FY2010, Vermont received significant Federal funds as a result of the American Recovery and Reinvestment Act (ARRA), increasing dramatically the number of federal programs subject to A-133 audit requirements.

The subject matter for performance audits and other reviews may vary widely. As a result, it may not be possible to identify trends in findings applicable across state government. However, there may be occasions when multiple agencies are audited based on the same performance audit objective, such as the performance measurement audits conducted by my office for four state organizations, and findings may have implications for the State as a whole.

In FY2011, my office implemented a recommendation follow-up process to determine the extent to which our recommendations are accepted and acted upon. It is our practice to conduct recommendation follow-up two and four years subsequent to the years in which we performed the audits. The results of our follow-up are positive and show that agencies had implemented 84% of recommendations contained in reports issued during 2008. We realized a lower rate of implementation of recommendations for reports issued in 2006, 67%, since one of the programs we audited was subsequently discontinued.

132 State Street • Montpelier, Vermont 05633-5101
Auditor: (802) 828-2281 • Toll-Free (in VT only): 1-877-290-1400 • Fax: (802) 828-2198
email: auditor@state.vt.us • website: www.auditor.vermont.gov

Please feel free to contact me with any questions. I would be pleased to provide you with further information.

Sincerely,

Thomas M. Salmon CPA

Thomas M. Salmon, CPA
Vermont State Auditor

Contents

Report

Tables

Figures

Abbreviations

A-133	Federal A-133 Compliance Audit
ARRA	American Recovery and Reinvestment Act
DED	Department of Economic Development
DMV	Department of Motor Vehicles
CAFR	Comprehensive Annual Financial Report
FY	Fiscal year
VEPC	Vermont Economic Progress Council

Introduction

The Office has a five-year contract with KPMG to perform both the audit of the Comprehensive Annual Financial Report (CAFR) and the Federal A-133 Compliance audit (A-133) through FY2012. This contract allows the office to focus greater staff resources on performance audits and special reviews to assess the efficiency and effectiveness of the programs and operations of state government. Although the utilization of staff audit resources is primarily focused on performance audits, we continue to contribute a significant number of hours to the performance of the CAFR and A-133 audits to keep costs down. KPMG bears the overall responsibility for these audits and contributes the bulk of the staff time.

The objective of the annual A-133 audit is to review Vermont's compliance with applicable federal laws and regulations for certain significant federal programs, such as Medicaid. Historically, 15 to 18 programs are audited each year. However, with the receipt of significant federal funds under the American Recovery and Reinvestment Act (ARRA), there were additional de facto audit requirements, resulting in the inclusion of 30 programs in the FY2010 audit scope. The audit of fiscal year 2010 reported 31 findings, of which 12 were considered material weaknesses.[1]

The objective of the annual CAFR audit is to express an opinion on whether the state's financial statements are free of material misstatement and to report on the state's internal controls over financial reporting and compliance with certain provisions of laws and regulations. While the audit has been completed and an unqualified audit opinion[2] was issued in December 2010, the report on internal controls has not been finalized as of the date of this report. As a result, we are not able to report on the findings at this time, but will issue an update to this report once the internal control report has been issued.

The terms material weakness and significant deficiency refer to the relative significance of a finding. See Figure 1 for descriptions of these terms.

---

[1]The A-133 report for FY 2010 has been drafted and provided to management for comment, but not issued as of the date of this report.

[2] An unqualified audit opinion states that the financial statements are presented fairly and in conformance with generally accepted accounting principles.

Figure 1: Significance of Internal Control Findings

<table>
<tr><td colspan="3">Summary of Control Deficiency Classifications</td></tr>
<tr><td>Control Deficiency</td><td>Significant Deficiency</td><td>Material Weakness</td></tr>
<tr><td>A control deficiency 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 misstatements on a timely basis.</td><td>A control 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.</td><td>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.</td></tr>
<tr><td colspan="3">Severity of Deficiency</td></tr>
<tr><td>• Not required to be reported in writing
• Effect of the deficiency is considered inconsequential.[1]
• Likelihood of misstatement is remote.[2]</td><td colspan="2">• Considers the potential for misstatement in the financial statements, not just on whether a misstatement has actually occurred.
• Those significant deficiencies or material weaknesses not yet remediated must be communicated in writing to management and those charged with governance.
• Even if the significant deficiency or material weakness were reported in the past, it must continue to be reported as long as those deficiencies continue to exist.</td></tr>
</table>

[1] A misstatement is considered inconsequential if a reasonable person would conclude, after considering the possibility of further undetected misstatements, that the misstatement, either individually or when aggregated with other misstatements, would be clearly immaterial to the financial statements.

[2]The chance of the future event(s) occurring is slight. Therefore, the likelihood of an event is "more than remote" when it is at least reasonably possible.

Source: Statement on Auditing Standards (SAS) 115 – Communicating Internal Control Related Matters Identified in an Audit.

One of the main focuses of the State Auditor's Office is to look at how well the state is providing its services. In other words, the office looks at the performance—both financial and nonfinancial—of a program, system, or organization. These types of audits are called performance audits. In fiscal year 2010 our performance audits evaluated whether (1) three state organizations know if their programs are meeting their goals,[3] (2) the state's sex offender registry is reliable, and (3) effective controls are in place to prevent duplicate vendor payments. These audits were initiated based upon the Office's assessment of risk areas within state government or as a result of legislative requirements. Recommendations from these audits totaled 41.

[3]These reports were part of a series of audits of four state organizations. The first report was issued at the end of fiscal year 2009.

Federal A-133 Compliance Audit Findings

Total programs audited for fiscal years 2007 through 2010 have ranged from 14 to 32. With the exception of FY2010, the significant fluctuation in total programs has been driven by the number of programs with significant compliance findings that require a re-audit in subsequent years.[4] The large number of programs required to be audited in fiscal year 2010 was largely driven by the increased audit responsibility required by ARRA.[5] See Table 1 for a summary of the number of findings by program since FY 2007.

Table 1: Summary of A-133 Audit Findings by Agency/Department and Program FY 2007 through FY 2010

	FY 2010	FY 2009	FY 2008	FY 2007
Agency of Human Services	**15**	**22**	**17**	**16**
Medicaid	5	10	7	8
CDC Technical Assistance		1	2	1
Immunization Grants		2	2	2
Temporary Aid to Needy Families	1	1		
Supplemental Nutrition Assistance Program	1	2		
Child Support Enforcement	3	3	3	3
Low Income Heating Assistance Program		1		1
Adoption Assistance	1	1		
Substance Abuse				1
Vocational Rehabilitation Grants to States	1	1	3	
Weatherization Assistance for Low-Income Persons	3			
Department of Labor	**4**	**3**		**2**
Unemployment Insurance	2	2		
Workforce Investment Act Cluster	1	1		2
Employment Services Cluster	1			
Agency of Transportation	**5**	**2**	**5**	**1**
Highway Planning & Construction	2		3	1
Disaster Recovery Public Assistance	2	2	2	
Formula Grants to Other Than Urban Areas	1			

[4]Absent significant audit findings, programs may be audited once every three years. Programs with significant audit findings must be re-audited until the finding is corrected. See Appendix I for analysis of re-audits since FY2003.

[5]30 programs were audited in for the period ending 6/30/2010. Most of these programs received ARRA funds.

	FY 2010	FY 2009	FY 2008	FY 2007
Agency of Natural Resources	**4**	**1**		
Drinking Water State Revolving Loan Funds	2	1		
Clean Water State Revolving Loan Funds	2			
Department of Education	**2**	**1**		**2**
State Fiscal Stabilization Fund	1			
Special Education Cluster				1
Vocational Education				1
Child Nutrition Cluster	1	1		
Education Technology State Grants				
Department of the Military	**1**			
National Guard Military Operations and Maintenance Projects	1			

Note: The final FY 2010 A-133 report has not been issued as of the date of this report. The FY2010 numbers provided are based on a draft report.

For further information regarding these audits, please reference www.auditor.vermont.gov.

Comprehensive Annual Financial Report Audit Findings

Recurring audit findings have been an issue with the CAFR although the state has taken some corrective actions. Generally, the state has had audit findings related to the following issues:

1. a variety of significant audit adjustments indicating the risk associated with a decentralized accounting function;

2. IT general controls; and

3. the operation of the state's Global Commitment to Health section 1115 demonstration waiver.

See Table 2 for a summary of the number and significance of CAFR findings for fiscal years 2007 through 2009.

Table 2: Summary of the Number and Significance of CAFR Audit Findings FY 2007 through FY 2010

	FY 2010 [1]	FY 2009	FY 2008 [2]	FY 2007
Material weaknesses	unknown	3	-	3
Significant deficiencies	unknown	1	4	9
Deficiencies	unknown	-	10	-
Total Findings	unknown	4	14	12

[1]The final FY 2010 internal control report associated with the CAFR audit has not been issued as of the date of this report.
[2] FY2008 includes deficiencies reported in a management letter.

For further information regarding these audits, please reference www.auditor.vermont.gov.

Performance Audit Findings

During FY2010, the office issued 6 performance audits containing 41 recommendations. See Table 3 for a list of reports issued and the number of recommendations associated with each report.

Table 3: List of Performance Audits

Title	Entity	# of Recs	Fiscal Year
Sex Offender Registry: Reliability Could Be Significantly Improved	Dept. of Public Safety, Dept. of Corrections, Judiciary	13	FY 10
Improper Payments: Internal Control Weaknesses Expose the Sate to Improper Payments	Dept. of Finance and Management	9	FY 10
Improper Payments: Results of Review of VISION Payments Made During FY2007 and FY2008	Dept. of Finance and Management, Agency of Transportation, Dept. of Labor	2	FY 10
Dept. of Motor Vehicles: Performance Measurement System Could be Enhanced	Dept. of Motor Vehicles	7	FY 10
Dept. of Economic Development and Vermont Economic Progress Council: Performance Measurement System Could be Improved	Dept. of Economic Development, Vermont Economic Progress Council	10	FY 10
Survey on Shared Services in Vermont School Systems[1]	VT Superintendents Association Members, Dept. of Education	-	FY 10

[1]This report was based on a survey of superintendents and the objective was to describe the range of shared services in Vermont supervisory unions and supervisory districts. The nature of the report did not lend itself to recommendations.

Examples of the results of certain of these audits follows:

Sex Offender Registry

We reviewed the reliability of the state's sex offender registry as well as the controls that were put in place to prevent errors, omissions, and outdated data. With respect to the reliability of the registry's data, we found a sizeable number of critical errors. These errors resulted in offenders that (1) were erroneously registered; (2) were registered for longer than statutorily required; (3) had their registrations expired prematurely; (4) should have been posted to the Internet, but were not; and (5) had their records erroneously posted to the Internet. In addition, the processes used to submit and enter data into the registry were largely manual and controls were not always documented or consistently applied. As a result of the audit, each of the organizations that were involved in providing and entering data into the registry made changes that are expected to improve the registry's reliability. In addition, each of these organizations has agreed to implement the recommendations made in this report.

Improper Payment Audits

Given the high dollar value and volume of payments made by the state and potential for erroneous payments, our office performed an audit focusing on detecting certain kinds of improper payment. Overall, we found that most departments we reviewed had implemented many of the accounts payable internal control best practices recommended by the Department of Finance and Management. Eighty percent of the departments implemented four or more of the six internal controls we evaluated. Although many departments adopted some good internal controls, there is room to improve the strength and consistency of internal controls across state departments and we recommended ways to achieve such improvements. In addition, using automated data mining techniques, we identified $265,000 in duplicate payments made in 2007 and 2008.

Performance Measurement Audits

In FY 2009, we began a series of performance audits evaluating the performance measurement systems of several departments. In FY 2010 we issued two reports related to (1) DMV and (2) DED and VEPC. In both of these cases we found that their strategic planning and performance measurement processes warranted improvement. Accordingly, we made recommendations to assist in these areas.

For more information about the audits issued in FY 2010, please see Appendix II for the Highlights page from each audit. For further information regarding the audits, please reference www.auditor.vermont.gov.

Appendix I

Table 4: Trends in the Number of Reaudits Associated with the A-133 Compliance Audit Since FY 2003

Year Audited	Required Program Audits[1]	Re-Audits	Total Program Audits	Findings Reported	Findings Corrected	Re-Audit Percentage[2]
FY 2003	10	9	19	46	27	74%
FY 2004	15	14	29	27	14	28%
FY 2005	9	8	17	27	11	53%
FY 2006	11	9	20	36	32	85%
FY 2007	15	17	32	21	13	22%
FY 2008	7	7	14	22	8	43%
FY 2009	13	6	19	28	8	42%
FY2010[3]	30	11	30	31	8	57%

[1]Required program audits are conducted for those programs exceeding 3% of total federal expenditures and have not been audited in the past two years. However, in FY2010, those programs that received ARRA funding and exceeded 3% of total federal expenditures required an audit, regardless of whether they were audited in the past two years.

[2]Reaudit percentage is the percentage of programs audited in the current year that, due to the significance of audit findings, will need to be audited in the subsequent year.

[3]Two of the 11 programs, Child Support Enforcement and Vocational Rehabilitation, have been subject to reaudit for four and three consecutive years, respectively.

Appendix II

Highlights: Report of the Vermont State Auditor

Department of Motor Vehicles: Performance Measurement System Could Be Enhanced

(July 22, 2009, Rpt. No. 09-4)

Why We Did This Audit

Performance measurement has been used by other governments to more effectively manage their operations. To assess whether the Department of Motor Vehicles (DMV) has a performance measurement system that could be used in this manner, we evaluated whether the Department has goals and measures that gauge the effectiveness and efficiency of its major programs and operations, ascertained the extent to which DMV tracks actual results against performance targets and validates the reliability of such data, and determined whether DMV is reporting performance measurement data to the legislature for each of its goals.

What We Recommend

We provided a variety of recommendations to improve DMV's performance measurement system. For example, we recommended that DMV develop a written strategic plan, develop targets for all measures, and require that the sources and methods used to develop actual performance results be documented and that actual results be validated for all measures.

Findings

DMV has developed a set of goals and measures that allows it to assess many aspects of its major programs and operations. In particular, its goals and related measures encompass customer service, highway safety, and revenue collection, which are major areas of DMV operations. However, in developing its current set of goals and measures, DMV utilized a strategic planning process that was a limited update of an older analysis and did not result in a strategic plan. Without such a plan, DMV does not have a single document that brings together the critical planning elements of its performance measurement system, thereby making it much more difficult to evaluate whether DMV's planned activities are designed to make the achievements of its goals and mission likely or whether there are gaps. In addition, not all DMV goals had measures specifically established to gauge their desired outcomes. For example, as part of DMV's goal to promote and support highway safety through education efforts, DMV measured the percentage increase/decrease in the number of participants in the Vermont Rider Education Program, a motorcycle training program. Such a measure is of limited use in evaluating to what extent this program has positively influenced highway safety or has benefited its participants.

The extent to which DMV used performance targets and tracked and validated actual results were mixed. First, DMV had targets for 11 of its 13 measures. Second, DMV documented the sources and methods used to calculate actual results for eight measures. Third, DMV had evidence to show that it was actively tracking and monitoring a little over half of its measures, particularly those related to customer service. However, the department could not demonstrate that it was actively tracking results for other measures. Finally, we found significant methodological errors in DMV's calculation of fiscal year 2008 results for three of the four measures that we tested. For example, one of DMV's customer service measures is the percentage of customers who visit DMV offices that are waited on within 30 minutes. However, the methodology used by DMV to calculate the fiscal year 2008 results pertaining to this measure did not take into account all customers who waited more than 30 minutes for service. Errors such as this could have been detected through a validation process, but DMV does not have such a process in place. Establishment of performance targets for all measures and more systematic tracking and validation of actual results could improve the completeness and reliability of DMV's performance measurement system.

DMV's performance measurement information reported to the Legislature was limited. DMV's Deputy Commissioner cited a variety of reports from DMV and its parent agency—the Agency of Transportation (AOT)—as containing the Department's performance information. In some cases, these reports contained selected DMV measures along with associated targets and actual results. However, in other cases, measures were reported without related targets or narrative explanation of actual performance. Moreover, none of DMV's goals and strategies was reported. In addition, neither the DMV nor the AOT reports contained relevant data limitations in their reports to the Legislature. More complete and consistent reporting of the Department's goals, measures, strategies and targets would provide the Legislature with a better set of performance measurement information with which to assess DMV's progress.

Appendix II

Highlights: Report of the Vermont State Auditor

Department of Economic Development and Vermont Economic Progress Council: Enhancements to Performance Measurement Systems Could Be Made

September 14, 2009, Report 09-05

Why We Did This Audit

Performance measurement has been used by other governments to more effectively manage their operations. To assess whether DED and VEPC have performance measurement systems that could be used in this manner, we evaluated whether the Department and Council have goals and measures that gauge the effectiveness and efficiency of their major programs and operations, ascertained the extent to which DED and VEPC track actual results against performance targets and validates the reliability of such data, and determined whether DED and VEPC is reporting performance measurement data to the Legislature for each of their goals.

What We Recommend

We provided a variety of recommendations to improve DED's and VEPC's performance measurement system. In particular, we recommended that both DED and VEPC develop strategic plans for their internal programs; develop a better mix of measures and targets; and document and validate the sources and methods for calculating actual results. Moreover, we recommend that more complete information be reported to the Legislature by DED which includes comparisons to targets and prior year actual results.

Findings

Although DED and VEPC had each established a set of goals and measures, neither had a documented strategic plan which would have provided a roadmap for the organizations to determine how their programs and operations met their goals efficiently and effectively. Without this roadmap, DED lacked clear alignment between one of its major programs, grants to Regional Development Corporations (RDC), and its goals. The types of measures used by DED and VEPC to gauge the effectiveness and efficiency of the programs could be enhanced to provide more usefulness to the organizations. DED's measures were predominantly of one type – output – which demonstrate the level of activity in a program but do not indicate whether the program is effective or efficient. For instance, "increasing available job opportunities" is a repeated element of the Department's goals yet none of the measures for any of the Department's programs include this important outcome. VEPC had measures for their two programs that were mostly outcome-based measures but was missing measures relating to the efficient use of resources.

DED and VEPC generally tracked actual results related to their respective measures but numerical targets were established for only half of DED measures and some of VEPC's measures. Targets are used to help evaluate the results of programs. Since both organizations compared actual results to targets for some but not all of their measures the results provided incomplete data against which to assess the programs' effectiveness. Both DED and VEPC had documentation for actual results in all cases tested. However, at DED three of the four results selected for testing revealed data and mathematical errors, or involved the use of estimates rather than actual results. For example, results from the Vermont Training Program, which is one of DEDs major programs, included estimates rather than actual results and had mathematical errors. DED did not have a process in place to validate performance results. With a process, such errors may have been found and corrected.

In its most recent performance reports, DED and VEPC included some, but not all, critical information that would provide the Legislature with a complete set of performance information with which to assess DED's and VEPC's accomplishments. DED reported goals at both the department and program levels and identified strategies for achieving the program goals and measures to assess progress. However, the Department did not explicitly link its goals, measures and results in the report nor did the reports compare actual results to targets thereby making it difficult for the Legislature to effectively assess progress. VEPC did not include program goals or strategies to meet those goals in its legislative reports thereby inhibiting the Legislature's ability to assess the program's progress. Narrative was not presented on one of VEPC reports but another presented narrative explanations with important explanatory disclosures including relevant data limitations.

Appendix II

Highlights: Report of the Vermont State Auditor

Title: Auditor's Survey of Shared Services in Vermont School Systems

(December 17, 2009, Rpt. No. 09-6)

Why We Did This Audit

With a weakened Vermont economy, declining student enrollment in public schools, and decreased revenues at the State government level, the costs of education are coming under greater scrutiny.

We believe that education leaders and the public might benefit from learning more about examples of shared school services and about opportunities that school leaders are seizing to provide better services and to be more efficient. Successful sharing strategies may ultimately direct more funds to priority instructional needs.

What We Recommend

This report makes no recommendations.

Findings

Forty-nine of 60 supervisory unions contacted participated in the survey, a response rate of 81.7%.

Respondents indicated significant sharing of services. Of services being provided, managed and budgeted solely by a supervisory union's central office (Q. 3), only one respondent reported no sharing. The most frequently shared services reported were business services, benefits management, grants management, Medicaid billing, insurance, audit contracts, office space, curriculum development, and Essential Early Education (EEE).

Of services provided and paid for in partnership with others (Q. 5), the most frequently shared services reported were transportation, special education, teacher professional development, information technology (IT) administration and staffing, curriculum development, and heating fuel purchasing. Other findings and observations include:

- Eighteen entities (36.7% of all respondents) reported they began a new shared service in the 2009-10 school year, but these efforts appear to be small-scale in nature.

- Thirty-nine of 49 entities reported at least one type of outsourcing to a business or consultants, with transportation (29 reports), food service (17) and technology (12) the leading functions outsourced. The 10 organizations not reporting any outsourcing had combined non-instruction expenditures of approximately $119 million in FY 2008, suggesting areas for review to determine if outsourcing of some services can improve services, reduce costs, or both.

- Superintendents appear to be open to more sharing, as 27 of 43 respondents (62.8%) indicated "we could be participating in more sharing of services."

- Respondents indicated strong backing (76.1%) for increased state support and funding to help identify and implement new shared services, but that support dropped (to 43.9%) for providing one-time financial incentives for new shared services to local residential taxpayers.

Highlights: Report of the Vermont State Auditor

Improper Payments: Results of Review of VISION Payments made during 2007 and 2008

June 2010, Rpt. No. 10-03)

Why We Did This Audit

The State of Vermont is accountable to its stakeholders for how its agencies and departments spend billions of taxpayer dollars and is responsible for safeguarding those funds against improper payments as well as for recouping those funds when improper payments occur.

Our objective in this audit was to use data-mining techniques to identify potential improper payments from VISION made by the state from January 1, 2007, to December 31, 2008.

What We Recommend

We recommend that the Commissioner of Finance and Management direct departments to collect any unrecovered improper payments identified.

We also recommend that the Commissioner of Finance and Management consider using VISION queries to make algorithms such as those that we ran available to departments, so that they may occasionally conduct their own reviews like this one.

Findings

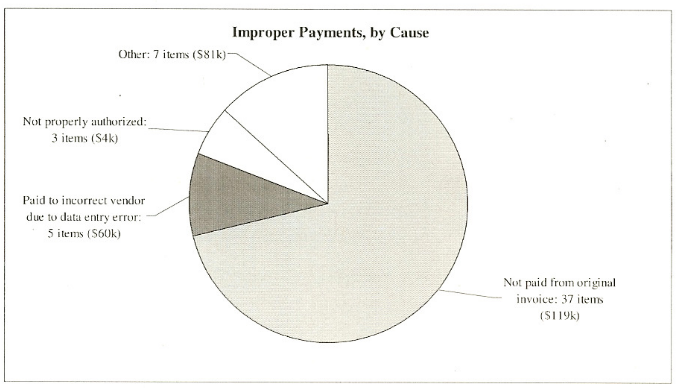
We found duplicate payments made by 11 of the 75 state departments during calendar years 2007 and 2008.

Of about 580,000 payments totaling approximately $8 billion made through the VISION accounts payable system, we applied various data-analysis filters and professional judgment to select 271 transactions totaling about $2.7 million for detailed testing. Of this, we identified about $263,000 (52 vouchers) as duplicate payments to vendors. At the time of review, about $61,000 of this remained outstanding, while about $202,000 had been repaid to the State.

There were various scenarios that gave rise to these duplicate payments, including the following, with their number and value shown in Chart 1.

An example of an improper payment was a delivery of $3,136 in fuel that was paid twice because it was paid on the basis of the delivery ticket and a subsequently submitted invoice.

Chart 1: Summary by cause of improper payments (rounded to the nearest thousand dollars)



Our analysis was limited to the identification only of certain types of potential improper payments and would not have identified other types, such as payments made for goods and services not delivered.

Page 3

Appendix II

Highlights: Report of the Vermont State Auditor

Improper Payments: Internal Control Weaknesses Expose the State to Improper Payments

(June 2010, Rpt. No. 10-02)

Why We Did This Audit

The State of Vermont is accountable to its stakeholders for how its departments spend billions of taxpayer dollars and is responsible for safeguarding those funds against improper payments as well as for recouping those funds when improper payments occur.

What We Recommend

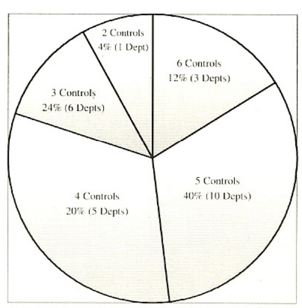
We provided a variety of recommendations to improve the State's internal controls and processes over VISION payments. For example, we recommended the State strengthen its process to ensure departments' compliance with the Department of Finance and Management (F&M) guidance, including Internal Control Standards and Best Practices. We also recommended the State modify the current VISION user access control practice to restrict the same individual from both entering and approving vouchers, and develop and implement standard policies and procedures for approving, maintaining and monitoring vendors.

Findings

Overall, we found that the departments are generally following the State's accounts payable and internal control guidance, but many departments have not implemented some of the key elements of this guidance. Seventy-two percent of the 25 departments we reviewed implemented four or more of the six internal controls we evaluated. However, only 12 percent of the departments implemented all six internal controls. See Chart 1 below for further details. Segregation of duties was the most common internal control implemented among the departments. The most common control not implemented by departments related to maintaining a list of authorized approvers. Although many departments have implemented much of the F&M guidance, failing to implement all key elements of this guidance can result in internal control weaknesses and improper payments.

Additional centralized controls could improve the State's accounts payable process. The State is vulnerable to improper payments as result of weaknesses in accounts payable user access controls in VISION (State's primary financial system). Many VISION users have the ability to both enter and approve vouchers, allowing them to complete a transaction in the system without the appropriate segregation and review. In addition, the SAO found significant weaknesses in F&M's vendor file management process, particularly relating to approving, maintaining and monitoring vendors. In the absence of well established procedures over the vendor master file data, errors or inappropriate use of master file data may go undetected. F&M has not established comprehensive procedures, written or otherwise, addressing key control areas of vendor file maintenance and monitoring. Without well established procedures and controls covering these critical aspects, the State is at risk for erroneous and/or fraudulent improper payments to vendors.

Chart 1: Summary of Departments' Adherence to Internal Controls



Page 3

Appendix II

Highlights: Report of the Vermont State Auditor

Sex Offender Registry: Reliability Could Be Significantly Improved

(June 25, 2010, Rpt. No. 10-05)

Why We Did This Audit

Act 58 required that we conduct a performance audit of Vermont's sex offender registry. Our objectives were to assess (1) the extent to which the data in the State's SOR is reliable and current and (2) whether the State's controls are designed to prevent errors, omissions, and outdated registry data.

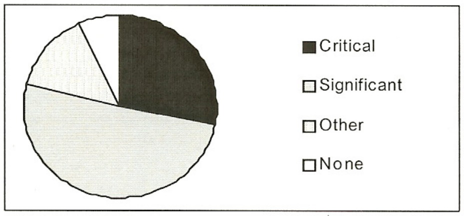
What We Recommend

Our report makes numerous recommendations to address specific types of errors and process weaknesses. We also made a recommendation that VCIC, DOC, and the Courts form a working group to reassess and possibly redesign the processes related to the Vermont sex offender registry to include possible system solutions to more effectively and efficiently submit information to the SOR.

Findings

There were a sizeable number of serious errors in the SOR and the currency of the system's data could not be determined. With respect to the SOR's reliability, one or more errors were found in the records of most of the 57 community-based offenders in our randomly selected statistical sample in which we traced data in the system to supporting documentation and assessed whether offenders were properly categorized (e.g., were or were not appropriately on the Internet SOR). Moreover, about three-quarters of these records had errors that were critical or significant in nature (see figure 1), in that offenders SOR or Internet SOR status was incorrect or would have been incorrect if not fixed after being brought to VCIC's attention (critical) or that data used to identify and locate offenders or conveyed to the public or law enforcement was incorrect, incomplete, or omitted (significant).

Figure 1: Effect of the Errors in the Community-Based Sample (57 records)



Further, using an automated data analysis tool to identify anomalies in the SOR database as a whole, we found an additional 195 critical and significant errors. VCIC corrected these errors as they were brought to its attention. The errors in the SOR resulted from a variety of causes, including data entry errors and inaccurate calculations, inaccurate or incomplete information provided by DOC, and SOR system weaknesses. On the positive side, a few tests, including verification that the SOR contained all sex offenders who had been convicted and sentenced in Vermont over a 3-year period, yielded no or few errors. With respect to the currency of data in the SOR, data was either not available or not reliable enough to perform a systematic analysis of whether information was being received and entered into the SOR in a timely manner. An exception was the annual process used to verify offenders' location data. In this case, VCIC was generally receiving data from offenders within required timeframes.

The organizations (i.e., VCIC, DOC, and the Courts) and processes used to support the SOR did not work in a seamless manner, which limited the State's ability to prevent errors, omissions, and outdated registry data. Specifically, the processes were largely manual and the controls were not always documented or consistently applied. For example, the VCIC and DOC processes in place to ensure that sex offender treatment status in the SOR is up to date were not always utilized or documented. Moreover, the SOR system lacks features, such as electronic interfaces, logic edits, and audit trails, to help prevent errors or identify what changes were made, when, and by whom. Although VCIC and DOC have taken action to address some of the process and control weaknesses, a comprehensive approach involving all of the organizations that provide most of the data to the SOR is more likely to achieve meaningful and sustainable improvement.

Page 3