



**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, 2015

## 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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**KPMG LLP**  
Suite 400  
356 Mountain View Drive  
Colchester, VT 05446

**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, 2015, 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 29, 2015. 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. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB 27, and Governmental Accounting Standards Board Statements No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB No. 68. 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 questioned costs, 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 questioned costs findings 2015-001, 2015-002, 2015-003, 2015-004 and 2015-005 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 questioned costs findings 2015-006, 2015-007, 2105-008, 2015-009 and 2015-010 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 questioned costs. 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 29, 2015



KPMG LLP  
Suite 400  
356 Mountain View Drive  
Colchester, VT 05446

**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, 2015. 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 (the Schedule), the State of Vermont's basic financial statements includes the operations of certain entities whose federal awards are not included in the accompanying Schedule for the year ended June 30, 2015. Our audit, described below, did not include the operations of the entities identified in note 1(a) to the Schedule, 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 Adverse Opinion on Certain Major Federal Programs***

As described in the accompanying schedule of findings and questioned costs, the State of Vermont did not comply with 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 the requirements applicable to those programs, as detailed below:

**Table 1**

<b>State agency/ department name</b>	<b>Federal program name</b>	<b>Compliance requirements</b>	<b>Finding number</b>	<b>Page number</b>
Agency of Human Services	Children's Health Insurance Program	Allowability, Eligibility	2015-040	146
Agency of Human Services	Children's Health Insurance Program	Eligibility	2015-041	150
Agency of Human Services	Children's Health Insurance Program	Program Income	2015-042	153
Agency of Human Services	Medicaid Cluster	Allowability, Eligibility	2015-043	156
Agency of Human Services	Medicaid Cluster	Allowability	2015-044	160
Agency of Human Services	Medicaid Cluster	Allowability	2015-045	176
Agency of Human Services	Medicaid Cluster	Allowability	2015-048	186
Agency of Human Services	Medicaid Cluster	Matching	2015-049	189
Agency of Human Services	Medicaid Cluster	Special Tests and Provisions	2015-050	192
Agency of Human Services	Medicaid Cluster	Procurement, Subrecipient Monitoring	2015-051	195
Agency of Human Services	Medicaid Cluster	Eligibility	2015-052	203
Agency of Human Services	Medicaid Cluster	Special Tests and Provisions	2015-053	206

***Adverse Opinions on Major Federal Programs***

In our opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the State of Vermont did not comply, 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, 2015.

***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 2**

<b>State agency/ department name</b>	<b>Federal program name</b>	<b>Compliance requirements</b>	<b>Finding number</b>	<b>Page number</b>
Agency of Human Services	SNAP Cluster	Special Tests and Provisions	2015-011	58
Agency of Education	Child Nutrition Cluster	Eligibility, Subrecipient Monitoring	2015-012	61
Department of Labor	Unemployment Insurance	Allowability, Eligibility, Special Tests and Provisions	2015-016	74
Department of Labor	Unemployment Insurance	Eligibility	2015-017	78
Agency of Transportation	Airport Improvement Program	Reporting	2015-019	85
Agency of Education	Special Education Cluster	Subrecipient, Monitoring	2015-025	100
Agency of Human Services	Rehabilitation Services – Vocational Rehabilitation Grants to States	Allowability, Subrecipient Monitoring, Reporting	2015-028	112
Agency of Human Services	TANF Cluster	Allowability, Eligibility	2015-031	122
Agency of Human Services	Low Income Home Agency Assistance	Eligibility	2015-032	125
Agency of Human Services	Low Income Home Agency Assistance	Allowability, Eligibility	2015-033	128
Agency of Human Services	ACA - State Innovation Models: Funding for Model Design and Model Testing	Allowability	2015-036	136
Agency of Human Services	Foster Care – Title IV-E	Allowability	2015-037	138
Agency of Human Services	Adoption Assistance	Allowability	2015-038	141
Department of Public Safety	Homeland Security Grant Program	Equipment, Real Property Management	2015-055	213
Department of Public Safety	Homeland Security Grant Program	Reporting	2015-056	216
Department of Public Safety	Homeland Security Grant Program	Subrecipient Monitoring	2015-057	219
Department of Public Safety	Homeland Security Grant Program	Special Tests and Provisions	2015-058	221

***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 2 above for the year ended June 30, 2015.

***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, 2015.

***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 2015-013, 2015-014, 2015-015, 2015-018, 2015-020, 2015-021, 2015-022, 2015-023, 2015-024, 2015-026, 2015-027, 2015-029, 2015-030, 2015-034, 2015-035, 2015-039, 2015-046, 2015-047, and 2015-054. 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 2015-011, 2015-012, 2015-016, 2015-017, 2015-019, 2015-025, 2015-028, 2015-031, 2015-032, 2015-033, 2015-036, 2015-037, 2015-038, 2015-040, 2015-041, 2015-042, 2015-043, 2015-044, 2015-045, 2015-048, 2015-049, 2015-050, 2015-051, 2015-052, 2015-053, 2015-055, 2015-056, 2015-057, and 2015-058 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 2015-013, 2015-014, 2015-015, 2015-018, 2015-020, 2015-021, 2015-022, 2015-023, 2015-024, 2015-026, 2015-027, 2015-029, 2015-030, 2015-034, 2015-035, 2015-039, 2015-046, 2015-047, and 2015-054 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, 2015 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 29, 2015, 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 Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB 27*, and Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment to GASB No. 68*, in the fiscal year ended June 30, 2015.

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 is 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 is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Colchester, Vermont  
March 30, 2016

**STATE OF VERMONT**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2015

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	\$ 271,688	20,000
10.153	Market News	9,211	—
10.156	Federal-State Marketing Improvement Program	30,930	12,000
10.163	Market Protection and Promotion	8,000	—
10.169	Specialty Crop Block Grant Program	174,922	121,138
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	673,761	—
10.551	Supplemental Nutritional Assistance Program	28,086,495	—
10.555	National School Lunch Program	20,166,670	20,096,331
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	15,044,056	—
10.558	Child and Adult Care Food Program	6,270,467	6,233,621
10.559	Summer Food Service Program for Children	1,317,054	1,275,919
10.560	State Administrative Expenses for Child Nutrition	523,341	2,000
10.561	State Administrative Matching Grants for the Supplemental Nutritional Assistance Program	11,949,869	2,046,385
10.565	Commodity Supplemental Food Program	226,940	226,940
10.568	Emergency Food Assistance Program (Administrative Costs)	60,015	88,527
10.572	WIC Farmers' Market Nutrition Program (FMNP)	75,715	—
10.575	Farm to School Grant Program	27,680	16,542
10.576	Senior Farmers Market Nutrition Program	87,007	50,299
10.578	WIC Grants to States (WGS)	15,810	—
10.582	Fresh Fruit and Vegetable Program	1,689,841	1,651,675
10.664	Cooperative Forestry Assistance	1,183,202	473,371
10.665	Schools and Roads – Grants to States	283,252	283,252
10.672	Rural Development, Forestry, and Communities	8,180	17,018
10.676	Forest Legacy Program	110,908	—
10.769	Rural Business Enterprise Grants	27	—
10.773	Rural Business Opportunity Grants	24,239	24,239
10.902	Soil and Water Conservation	443	—
10.912	Environmental Quality Incentive Program	218,105	58,982
10.914	Wildlife Habitat Incentives Program	71,648	—
10.999	Organic Certification – Producers	190,944	—
		88,800,420	32,698,239
U.S. Department of Commerce:			
11.113	ITA Special Projects	35,681	12,569
11.307	Economic Adjustment Assistance	370,744	119,806
11.407	Interjurisdictional Fisheries Act of 1986	3,393	3,393
11.549	State and Local Implementation Grant Program	25,726	—
		435,544	135,768
U.S. Department of Defense:			
12.002	Procurement Technical Assistance For Business Firms	395,748	44,626
12.100	Aquatic Plant Control	381,642	119,124
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	10,650	—
12.401	National Guard Military Operations and Maintenance (O&M) Projects	19,224,610	—
12.404	National Guard ChalleNGe Program	597,383	—
		20,610,033	163,750
U.S. Department of Housing and Urban Development:			
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	7,663,641	7,171,799
14.231	Emergency Solutions Grant Program	632,359	577,423
14.239	Home Investment Partnerships Program	3,863,908	3,797,185
14.269	Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)	3,760,359	3,518,403
14.999	Office of Fair Housing-Assistance Grant	67,122	—
		15,987,389	15,064,810
U.S. Department of Interior:			
15.605	Sport Fish Restoration Program	3,478,611	—
15.608	Fish and Wildlife Management Assistance	31,073	10,955
15.611	Wildlife Restoration and Basic Hunter Education	3,247,635	79,097
15.615	Cooperative Endangered Species Conservation Fund	22,675	—
15.616	Clean Vessel Act Program	3,497	58,603
15.622	Sportfishing and Boating Safety Act	203,512	184,823
15.626	Enhanced Hunter Education and Safety Program	54,320	53,047
15.631	Partners for Fish and Wildlife	10,103	—
15.633	Landowner Incentive Program	147,549	133,975
15.634	State Wildlife Grants	566,400	139,464
15.657	Endangered Species Conservation-Recovery Implementation Funds	18,098	—
15.810	National Cooperative Geologic Mapping Program	64,177	16,099
15.814	National Geological and Geophysical Data Preservation Program	10,319	—
15.904	Historic Preservation Fund Grants-In-Aid	636,108	54,024
15.916	Outdoor Recreation – Acquisition, Development and Planning	95,454	—
		8,589,531	730,087

**STATE OF VERMONT**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2015

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	\$ 126,287	—
16.017	Sexual Assault Services Formula Program	238,501	206,065
16.523	Juvenile Accountability Block Grants	400,203	54,684
16.540	Juvenile Justice and Delinquency Prevention – Allocation to States	419,892	419,892
16.554	National Criminal History Improvement Program (NCHIP)	137,743	—
16.575	Crime Victim Assistance	1,233,313	605,129
16.576	Crime Victim Compensation	229,722	—
16.582	Crime Victim Assistance/Discretionary Grants	98,701	—
16.585	Drug Court Discretionary Grant Program	22,156	—
16.588	Violence Against Women Formula Grants	890,603	355,118
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	395,849	323,778
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	69,957	25,260
16.593	Residential Substance Abuse Treatment for State Prisoners	88,735	—
16.606	State Criminal Alien Assistance Program	18,731	—
16.607	Bulletproof Vest Partnership Program	2,545	1,430
16.710	Public Safety Partnership and Community Policing Grants	80,435	24,235
16.727	Enforcing Underage Drinking Laws Program	28,093	10,769
16.735	PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	161,226	—
16.738	Edward Byrne Memorial Justice Assistance Grant Program	644,042	67,668
16.741	DNA Backlog Reduction Program	179,731	—
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	55,607	—
16.751	Edward Byrne Memorial Competitive Grant Program	2,666	—
16.753	Congressionally Recommended Awards	81,151	—
16.754	Harold Rogers Prescription Drug Monitoring Program	23,799	13,852
16.812	Second Chance Act Reentry Initiative	504,196	304,960
16.922	Equitable Sharing Program	181,197	7,237
16.999	Drug Enforcement Administration – DEA	19,385	—
16.999	New England High-Intensity Drug Trafficking Areas (HIDTA)	16	—
16.999	ICE/SLOT (formally Bordergap)	4,749	—
16.999	FBI Special Investigations	21,716	—
16.999	Evidence (Asset Seizure) Forfeiture Funds (Justice & Treasury)	10,993	—
16.999	FBI Joint Terrorism Task Force	1,800	—
16.999	US Marshall's District Fugitive Task Force	4,502	—
16.999	Domestic Cannabis Eradication / Suppression Program (DCE/SP) (formally MERT)	14,699	—
		6,392,941	2,420,077
U.S. Department of Labor:			
17.002	Labor Force Statistics	678,534	—
17.005	Compensation and Working Conditions	74,690	—
17.207	Employment Service/Wagner – Peyser Funded Activities	2,490,592	—
17.225	Unemployment Insurance	86,742,149	—
17.235	Senior Community Service Employment Program	556,186	528,090
17.245	Trade Adjustment Assistance	1,108,362	—
17.258	WIA Adult Program	2,558,518	—
17.259	WIA Youth Activities	2,031,865	114,950
17.271	Work Opportunity Tax Credit Program (WOTC)	22,049	—
17.273	Temporary Labor Certification for Foreign Workers	94,722	—
17.277	Workforce Investment Act (WIA) National Emergency Grants	182,702	111,412
17.278	WIA Dislocated Worker Formula Grants	1,071,339	—
17.281	WIA/WIOA Dislocated Worker National Reserve Technical Assistance and Training	8,301	—
17.503	Occupational Safety and Health – State Program	708,896	—
17.504	Consultation Agreements	444,701	—
17.600	Mine Health and Safety Grants	64,979	63,786
17.801	Disabled Veterans' Outreach Program (DVOP)	311,792	—
17.802	Veterans' Employment Program	90,207	—
		99,240,584	818,238
U.S. Department of Transportation:			
20.106	Airport Improvement Program	11,881,643	—
20.200	Highway Research and Development Program	185,671	—
20.205	Highway Planning and Construction	254,033,006	21,758,361
20.218	National Motor Carrier Safety	74,869	—
20.219	Recreational Trails Program	1,222,582	791,591
20.233	Boarder Enforcement Grants	1,030,086	—
20.314	Railroad Development	82,478	82,478
20.317	Capital Assistance to States, Intercity Passenger Rail Services	72,595	—
20.319	ARRA – High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	2,585	—
20.500	Federal Transit – Capital Investment Grants	3,551,624	3,469,359
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	194,493	84,564
20.509	Formula Grants for Rural Areas	13,868,588	13,451,370
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities	1,061,248	1,023,151

**STATE OF VERMONT**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2015

CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients
20.516	Job Access And Reverse Commute Program	\$ 43,824	21,912
20.521	New Freedom Program	169,354	159,637
20.600	State and Community Highway Safety	1,423,156	539,813
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	621,613	—
20.608	Minimum Penalties For Repeat Offenders For Driving While Intoxicated	2,491,673	403,355
20.609	Safety Belt Performance Grants	41	—
20.610	State Traffic Safety Information System Improvement Grants	276,571	11,874
20.612	Incentive Grant Program to Increase Motorcyclist Safety	28,183	—
20.613	Child Safety and Child Booster Seats Incentive Grants	18,627	—
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	15,240	—
20.616	National Priority Safety Programs	667,563	2,014
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	75,471	32,290
20.721	PHMSA Pipeline Safety Program One Call Grant	175,418	—
20.933	National Infrastructure Investments	5,506,215	—
		<u>298,774,417</u>	<u>41,831,769</u>
21.000	U.S. Department of Treasury: Equitable Sharing Program (Evidence Forfeiture Funds – EFF)	69,402	—
		<u>69,402</u>	<u>—</u>
45.310	U.S. Institute of Museum and Library Service: Grants to States	880,210	32,164
		<u>880,210</u>	<u>32,164</u>
59.061	U.S. Small Business Administration: State Trade and Export Promotion Pilot Grant Program	88,724	4,396
		<u>88,724</u>	<u>4,396</u>
66.032	U.S. Environmental Protection Agency: State Indoor Radon Grants	128,165	10,000
66.034	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	374,967	—
66.040	State Clean Diesel Grant Program	71,700	55,702
66.042	Temporally Integrated Monitoring of Ecosystems (TIME) and Long-Term Monitoring (LTM) Program	145,583	—
66.202	Congressionally Mandated Projects	95,217	—
66.454	Water Quality Management Planning	139,516	58,201
66.458	Capitalization Grants for Clean Water State Revolving Funds	2,958,838	2,958,838
66.461	Regional Wetland Program Development Grants	89,831	—
66.468	Capitalization Grants for Drinking Water State Revolving Funds	12,308,062	10,087,486
66.481	Lake Champlain Basin Program	441,218	128,819
66.605	Performance Partnership Grants	4,297,611	239,801
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	357,476	—
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	359,874	—
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements	5,418	—
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	235,738	—
66.708	Pollution Prevention Grants Program	80,000	8,875
66.802	Superfund State, Political Subdivision and Indian Tribe Site-Specific Cooperative Agreements	90,271	—
66.804	Underground Storage Tank Prevention, Detection, and Compliance Program	308,947	—
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program	639,525	—
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	100,603	—
66.817	State and Tribal Response Program Grants	599,429	—
66.818	Brownfields Assessment and Cleanup Cooperative Agreements	1,182,091	903,882
		<u>25,010,080</u>	<u>14,451,604</u>
81.039	U.S. Department of Energy: SHOPP (State Heating Oil and Propane Program)	5,000	—
81.041	State Energy Program	225,027	23,793
81.041	ARRA-State Energy Program	17,749	—
81.042	Weatherization Assistance for Low – Income Persons	687,960	619,684
81.119	State Energy Program Special Projects	102,456	—
81.122	ARRA – Electricity Delivery and Energy Reliability, Research, Development and Analysis	5,793	—
		<u>1,043,985</u>	<u>643,477</u>
84.002	U.S. Department of Education: Adult Education – Basic Grants to States	849,262	719,696
84.010	Title I Grants to Local Educational Agencies	32,132,804	31,509,945
84.011	Migrant Education – State Grant Program	898,966	779,826
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth	111,422	—
84.027	Special Education – Grants to States	25,631,381	22,728,312
84.048	Career and Technical Education – Basic Grants to States	3,998,218	3,430,266
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	15,585,159	—

**STATE OF VERMONT**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2015

CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients
84.169	Independent Living – State Grants	\$ 180,394	140,929
84.173	Special Education – Preschool Grants	692,712	534,980
84.177	Rehabilitation Services – Independent Living Services for Older Individuals Who are Blind	324,041	225,000
84.181	Special Education – Grants for Infants and Families	2,148,926	—
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities	353,223	—
84.196	Education for Homeless Children and Youth	151,414	109,112
84.224	Assistive Technology	345,306	—
84.265	Rehabilitation Training – State Vocational Rehabilitation Unit In-Service Training	93,181	—
84.287	Twenty-First Century Community Learning Centers	5,645,665	5,416,278
84.323	Special Education – State Personnel Development	600,116	127,012
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	18,277	—
84.365	English Language Acquisition State Grants	520,757	318,797
84.366	Mathematics and Science Partnerships	784,550	755,961
84.367	Improving Teacher Quality State Grants	9,907,312	9,593,247
84.369	Grants for State Assessments and Related Activities	3,000,368	—
84.372	Statewide Longitudinal Data Systems	1,100,055	—
84.412	Race to the Top – Early Learning Challenge	4,584,620	898,051
		<u>109,658,129</u>	<u>77,287,412</u>
89.003	U.S. National Archives and Records Administration: National Historical Publications and Records Grants	37,552	—
		<u>37,552</u>	<u>—</u>
90.401	U.S. Election Assistance Commission: Help America Vote Act Requirements Payments	1,534,723	—
90.601	Northern Border Regional Development	128,856	—
		<u>1,663,579</u>	<u>—</u>
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	24,474	24,474
93.042	Special Programs for the Aging – Title VII, Chapter 2 – Long Term Care Ombudsman Services for Older Individuals	67,882	67,882
93.043	Special Programs for the Aging-Title III, Part D – Disease Prevention and Health Promotion Services	100,361	100,361
93.044	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	1,870,587	1,870,587
93.045	Special Programs for the Aging – Title III, Part C – Nutrition Services	3,187,604	3,187,604
93.052	National Family Caregiver Support, Title III, Part E	845,188	407,846
93.053	Nutrition Services Incentive Program	796,956	796,956
93.069	Public Health Emergency Preparedness	4,416,620	21,692
93.070	Environmental Public Health and Emergency Response	563,610	37,868
93.071	Medicare Enrollment Assistance Program	68,144	68,143
93.074	Hospital Preparedness Program and Public Health Emergency Preparedness Aligned Cooperative Agreements	900	—
93.079	Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	62,755	—
93.090	Guardianship Assistance	71,607	—
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program	249,794	158,395
93.094	Well-Integrated Screening and Evaluation for Women Across the Nation	341,747	—
93.103	Food and Drug Administration – Research	596,683	—
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,071,015	1,039,892
93.106	FDA Dairy Readiness Rating	19,274	—
93.110	Maternal and Child Health Federal Consolidated Programs	362,609	126,940
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	121,832	—
93.127	Emergency Medical Services for Children	161,731	—
93.130	Cooperative Agreements to States/ Territories for the Coordination and Development of Primary Care Offices	158,310	18,000
93.136	Injury Prevention and Control Research and State and Community Based Programs	248,595	204,175
93.150	Projects for Assistance in Transition from Homelessness (PATH)	297,749	297,748
93.165	Grants to States for Loan Repayment Program	73,967	—
93.217	Family Planning – Services	761,916	744,231
93.241	State Rural Hospital Flexibility Program	290,499	151,525
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	6,104,581	3,985,294
93.251	Universal Newborn Hearing Screening	254,243	225,783
93.268	Immunization Cooperative Agreements	1,639,851	—
93.270	Adult Viral Hepatitis Prevention and Control	88,180	—
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	1,636,909	407,489
93.301	Small Rural Hospital Improvement Grant Program	102,424	91,660
93.324	State Health Insurance Assistance Program	1,112,627	174,217
93.336	Behavioral Risk Factor Surveillance System	280,557	—

**STATE OF VERMONT**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2015

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	\$ 1,937,901	—
93.507	PPHF National Public Health Improvement Initiative	334,212	—
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	1,213,630	—
93.517	Affordable Care Act – Aging and Disability Resource Center	868,944	647,553
93.519	Affordable Care Act (ACA) – Consumer Assistance Program Grants	332,147	—
93.520	Centers for Disease Control and Prevention – Affordable Care Act (ACA) – Communities Putting Prevention to Work	100,000	—
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	1,293,919	21,552
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	45,455,500	657,879
93.531	PPHF Community Transformation Grants and National Dissemination and Support for Community Transformation Grants – financed solely by Prevention and Public Health Funds	159,411	77,774
93.538	ACA National Environmental Public Health Tracking Program – Network Implementation	737,247	—
93.550	Transitional Living for Homeless Youth	206,306	184,280
93.556	Promoting Safe and Stable Families	304,836	276,361
93.558	Temporary Assistance for Needy Families	33,447,839	57,380
93.563	Child Support Enforcement	9,182,106	—
93.566	Refugee and Entrant Assistance – State Administered Programs	428,484	303,709
93.568	Low-Income Home Energy Assistance	18,550,280	3,015,560
93.569	Community Services Block Grant	3,661,900	3,488,776
93.575	Child Care and Development Block Grant	12,227,120	3,080,007
93.576	Refugee and Entrant Assistance – Discretionary Grants	561,698	498,145
93.586	State Court Improvement Program	221,538	—
93.590	Community – Based Child Abuse Prevention Grants	199,462	199,462
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	6,668,014	592,371
93.597	Grants to States for Access and Visitation Programs	74,535	73,847
93.599	Chafee Education and Training Vouchers Program (ETV)	100,581	100,581
93.600	Head Start	139,831	8,911
93.609	The Affordable Care Act – Medicaid Adult Quality Grants	520,170	—
93.617	Voting Access for Individuals with Disabilities – Grants to States	16,505	13,658
93.624	ACA – State Innovation Models: Funding for Model Design and Model Testing Assistance	8,301,537	3,489,702
93.630	Developmental Disabilities Basic Support and Advocacy Grants	508,538	182,575
93.643	Children's Justice Grants to States	57,681	46,964
93.645	Stephanie Tubbs Jones Child Welfare Services Program	522,748	—
93.658	Foster Care – Title IV-E	11,089,014	8,195
93.659	Adoption Assistance	8,468,790	—
93.667	Social Services Block Grant	7,675,148	594,130
93.669	Child Abuse and Neglect State Grants	126,800	30,069
93.671	Family Violence Prevention and Services Domestic Violence Shelter and Supportive Services	771,649	908,314
93.674	Chafee Foster Care Independence Program	632,229	632,229
93.716	ARRA – Temporary Assistance for Needy Families Supplemental Grants	1,475,380	—
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance	225,121	—
93.753	Child Lead Poisoning Prevention Surveillance	149,493	—
93.767	Children's Health Insurance Program	6,675,267	—
93.775	State Medicaid Fraud Control Units	634,039	—
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	1,713,202	—
93.778	Medical Assistance Program	1,009,816,716	16,289,878
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	195,346	—
93.791	Money Follows the Person Rebalancing Demonstration	2,015,549	27,356
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for infectious Diseases	27,805	—
93.889	National Bioterrorism Hospital Preparedness Program	811,432	429,956
93.913	Grants to States for Operation of Offices of Rural Health	172,475	52,750
93.917	HIV Care Formula Grants	752,559	359,545
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	149,470	97,848
93.940	HIV Prevention Activities – Health Department Based	1,215,038	776,106
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	118,764	—
93.945	Assistance Programs for Chronic Disease Prevention and Control	992,115	113,785
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	152,708	—
93.958	Block Grants for Community Mental Health Services	811,593	163,622
93.959	Block Grants for Prevention and Treatment of Substance Abuse	6,909,867	2,402,560
93.977	Preventive Health Services – Sexually Transmitted Disease Control Grants	204,445	29,825
93.991	Preventive Health and Health Services Block Grant	286,819	36,299
93.994	Maternal and Child Health Services Block Grant to the States	1,164,479	712,867
		<u>1,241,819,713</u>	<u>54,891,143</u>

**STATE OF VERMONT**  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2015

CFDA number	Federal agency/program type	Expenditures	Amounts passed through to subrecipients
	U.S. Corporation for National Community Service:		
94.003	State Commissions	\$ 293,853	—
94.006	AmeriCorps	1,029,277	1,016,330
94.007	Program Development and Innovation Grants	2,051	—
94.013	Volunteers in Service to America	35,890	—
		<u>1,361,071</u>	<u>1,016,330</u>
	U.S. Social Security Administration:		
96.001	Social Security – Disability Insurance	5,737,525	—
96.008	Social Security-Work Incentives Planning and Assistance Program	100,000	16,664
		<u>5,837,525</u>	<u>16,664</u>
	U.S. Department of Homeland Security:		
97.012	Boating Safety Financial Assistance	752,058	53,556
97.023	Community Assistance Program – State Support Services Element (CAP – SSSE)	189,828	—
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	51,955,984	19,696,795
97.039	Hazard Mitigation Grant	3,177,238	2,745,614
97.041	National Dam Safety Program	48,119	—
97.042	Emergency Management Performance Grants	2,483,040	605,712
97.043	State Fire Training Systems Grants	12,842	—
97.045	Cooperating Technical Partners	61,358	—
97.047	Pre-Disaster Mitigation	115,275	115,275
97.055	Interoperable Emergency Communications	58,709	9,075
97.067	Homeland Security Grant Program	8,466,388	4,550,264
97.089	Driver’s License Security Grant Program	406,497	—
97.090	Law Enforcement Officer Reimbursement Agreement Program	47,696	—
		<u>67,775,032</u>	<u>27,776,291</u>
	Total direct monetary awards	<u>1,994,075,861</u>	<u>269,982,219</u>
	Nonmonetary programs:		
	U.S. Department of Agriculture:		
10.551	Supplemental Nutrition Assistance Program – EBT	96,758,962	—
10.555	National School Lunch Program – Commodities	2,112,722	—
10.559	Summer Food Service Program for Children	5,785	—
10.565	Commodity Supplemental Food Program – Commodities	93,348	—
10.568	Emergency Food Assistance Program	672,513	—
	Total U.S. Department of Agriculture	<u>99,643,330</u>	<u>—</u>
	Buildings and General Services:		
39.003	Donation of Federal Surplus Personal Property	2,127,011	—
		<u>2,127,011</u>	<u>—</u>
	U.S. Dept of Health and Human Services:		
93.268	Immunization Cooperative Agreements – Vaccines	5,769,423	—
		<u>5,769,423</u>	<u>—</u>
	Total direct nonmonetary federal assistance	<u>107,539,764</u>	<u>—</u>
	Total direct federal grants	<u>2,101,615,625</u>	<u>269,982,219</u>
	Indirect federal grants:		
	Vermont Center for Geographic Information:		
11.558	ARRA – State Broadband Data and Development Grant Program	81,814	—
	Total Vermont Center for Geographic Information	<u>81,814</u>	<u>—</u>
	State of Maine:		
93.767	Children’s Health Insurance Program	62,196	—
	Total State of Maine	<u>62,196</u>	<u>—</u>
	Total indirect federal grants	<u>144,010</u>	<u>—</u>
	Total federal financial aid expended	<u>\$ 2,101,759,635</u>	<u>269,982,219</u>

See accompanying notes to schedule of expenditures of federal awards.

## STATE OF VERMONT

### Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

#### (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 (the Schedule) 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, 2015. The Schedule does 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, 2015. 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 Schedule 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 Schedule. 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 \$6,305,279 in expenditures, distributions, or issuances for the fiscal year ended June 30, 2015.

A copy of the schedule of expenditures of federal awards presented by State Department and Agency can be found on the State of Vermont Department of Finance and Management website.

**STATE OF VERMONT**

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

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

The accompanying Schedule was 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 Schedule.

**(2) Categorization of Expenditures**

The categorization of expenditures by program included in the Schedule 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	\$	11,749,281
State		<u>74,992,868</u>
Total	\$	<u><u>86,742,149</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.

**(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 Schedule are as follows:

(a) ***Supplemental Nutritional Assistance Program (EBT) (CFDA #10.551)***

The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA #10.551) are supported by both regularly appropriated funds and incremental funding

## STATE OF VERMONT

### Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

made available under section 101 of the American Recovery and Reinvestment Act of 2009 (Recovery Act). 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 the U.S. Department of Agriculture (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 0.64% of USDA's total expenditure for SNAP benefits in the federal fiscal year ended September 30, 2014.

**(b) *National School Lunch Program (CFDA #10.555)***

The National School Lunch Program assists states in providing a nutritious food service program for low-income children through cash grants and food commodities, such as bread, meat, and other commodities. Total federal expenditures included in the Schedule for the National School Lunch Program represents the federal government's acquisition value of food commodities provided to the State.

**(c) *Summer Food Service Program for Children (CFDA #10.559)***

The Summer Food Service Program for Children assists states, through grants-in-aid and other means, to conduct nonprofit food service programs for children during the summer months and at other approved times, when school is not in session. Total federal expenditures included in the Schedule for the Summer Food Service Program for Children represents the federal government's acquisition value of food commodities provided to the State.

**(d) *Commodity Supplemental Food Program – 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 Schedule for the Commodity Supplemental Food Program – Commodities represent the federal government's acquisition value of the food commodities provided to the State.

**(e) *Emergency Food Assistance Program (CFDA #10.568)***

The Emergency Food Assistance Program for Children helps supplement the diets of low-income Americans by providing them with food and nutritional assistance at no cost. Under this program, commodity foods are made available by the USDA to states. States provide the food to locally selected agencies, usually food banks, which in turn distribute the food to soup kitchens and pantries that directly serve the public. Total federal expenditures included in the Schedule for the Emergency Food Assistance Program for Children represent the federal government's acquisition value of food commodities provided to the State.

**STATE OF VERMONT**

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

**(f) 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 Schedule for Donation of Federal Surplus Personal Property represent the federal government’s acquisition value of the federal property sold by the State.

**(g) 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 Schedule for Immunization Cooperative Agreements represent the federal government’s acquisition value of the vaccines provided to the State.

**(7) Clustered Programs**

OMB Circular A-133 defines a “cluster” as “a grouping of closely related programs that share common compliance requirements.” The table below details the federal programs included in the Schedule that are required by OMB Circular A-133 to be “clustered” for purposes of testing federal compliance requirements and identifying Type A programs.

<u>CFDA #</u>	<u>Program Title</u>	<u>Expenditures</u>
<i>Supplemental Nutrition Assistance Program (SNAP) Cluster</i>		
10.551	Supplemental Nutrition Assistance Program	28,086,495
10.551	Supplemental Nutrition Assistance Program – EBT	96,758,962
10.561	State Administrative Matching Grants for the Supplemental Nutritional Assistance Program	11,949,869
	<i>SNAP Cluster Total</i>	<u>\$ 136,795,326</u>
 <i>Child Nutrition Cluster</i>		
10.555	National School Lunch Program – Commodities	2,112,722
10.555	National School Lunch Program	20,166,670
10.559	Summer Food Service Program for Children	1,317,054
10.559	Summer Food Service Program for Children – Commodities	5,785
	<i>Child Nutrition Cluster Total</i>	<u>\$ 23,602,231</u>
 <i>Food Distribution Cluster</i>		
10.565	Commodity Supplemental Food Program – Commodities	93,348
10.565	Commodity Supplemental Food Program	226,940
10.568	Emergency Food Assistance Program (Administrative Costs)	60,015
10.568	Emergency Food Assistance Program (Non-monetary)	672,513
	<i>Food Distribution Cluster Total</i>	<u>\$ 1,052,816</u>

**STATE OF VERMONT**

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

<u>CFDA #</u>	<u>Program Title</u>	<u>Expenditures</u>
<i>Forest Service Schools and Roads Cluster</i>		
10.665	Schools and Roads - Grants to States	283,252
	<i>Forest Service Schools and Roads Cluster Total</i>	\$ <u>283,252</u>
 <i>Economic Development Cluster</i>		
11.307	Economic Adjustment Assistance	370,744
	<i>Economic Development Cluster Total</i>	\$ <u>370,744</u>
 <i>Fish and Wildlife Cluster</i>		
15.605	Sport Fish Restoration Program	3,478,611
15.611	Wildlife Restoration and Basic Hunter Education	3,247,635
	<i>Fish and Wildlife Cluster Total</i>	\$ <u>6,726,246</u>
 <i>Employment Service Cluster</i>		
17.207	Employment Service/Wagner – Peyser Funded Activities	2,490,592
17.801	Disabled Veterans' Outreach Program (DVOP)	311,792
	<i>Employment Service Cluster Total</i>	\$ <u>2,802,384</u>
 <i>Workforce Investment Act (WIA) Cluster</i>		
17.258	WIA Adult Program	2,558,518
17.259	WIA Youth Activities	2,031,865
17.278	WIA Dislocated Worker Formula Grants	1,071,339
	<i>WIA Cluster Total</i>	\$ <u>5,661,722</u>
 <i>Highway Planning and Construction Cluster</i>		
20.205	Highway Planning and Construction	254,033,006
20.219	Recreational Trails Program	1,222,582
	<i>Highway Planning and Construction Cluster Total</i>	\$ <u>255,255,588</u>

**STATE OF VERMONT**

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

<u>CFDA #</u>	<u>Program Title</u>	<u>Expenditures</u>
<i>Federal Transit Cluster</i>		
20.500	Federal Transit - Capital Investment Grants	3,551,624
	<i>Federal Transit Cluster Total</i>	\$ <u>3,551,624</u>
 <i>Transit Services Programs Cluster</i>		
20.513	Enhanced Mobility of Seniors and Individuals With Disabilities	1,061,248
20.516	Job Access and Reverse Commute Program	43,824
20.521	New Freedom Program	169,354
	<i>Transit Services Programs Cluster Total</i>	\$ <u>1,274,426</u>
 <i>Highway Safety Cluster</i>		
20.600	State and Community Highway Safety	1,423,156
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I	621,613
20.609	Safety Belt Performance Grants	41
20.610	State Traffic Safety Information System Improvement Grants	276,571
20.612	Incentive Grant Program to Increase Motorcyclist Safety	28,183
20.613	Child Safety and Child Booster Seats Incentive Grants	18,627
20.616	National Priority Safety Programs	667,563
	<i>Highway Safety Cluster Total</i>	\$ <u>3,035,754</u>
 <i>Clean Water State Revolving Fund Cluster</i>		
66.458	Capitalization Grants for Clean Water State Revolving Funds	2,958,838
	<i>Clean Water State Revolving Fund Cluster Total</i>	\$ <u>2,958,838</u>
 <i>Drinking Water State Revolving Fund Cluster</i>		
66.468	Capitalization Grants for Drinking Water State Revolving Funds	12,308,062
	<i>Drinking Water State Revolving Fund Cluster Total</i>	\$ <u>12,308,062</u>

**STATE OF VERMONT**

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2015

<u>CFDA #</u>	<u>Program Title</u>	<u>Expenditures</u>
<i>Special Education Cluster</i>		
84.027	Special Education-Grants to States	25,631,381
84.173	Special Education-Preschool Grants	692,712
	<i>Special Education Cluster Total</i>	\$ <u>26,324,093</u>
 <i>Aging Cluster</i>		
93.044	Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	1,870,587
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	3,187,604
93.053	Nutrition Services Incentive Program	796,956
	<i>Aging Cluster Total</i>	\$ <u>5,855,147</u>
 <i>Temporary Assistance for Needy Families (TANF) Cluster</i>		
93.558	Temporary Assistance for Needy Families	33,447,839
93.716	ARRA – Temporary Assistance for Needy Families Supplemental Grants	1,475,380
	<i>TANF Cluster Total</i>	\$ <u>34,923,219</u>
 <i>Child Care and Development Fund (CCDF) Cluster</i>		
93.575	Child Care and Development Block Grant	12,227,120
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	6,668,014
	<i>CCDF Cluster Total</i>	\$ <u>18,895,134</u>
 <i>Medicaid Cluster</i>		
93.775	State Medicaid Fraud Control Units	634,039
93.777	State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	1,713,202
93.778	Medical Assistance Program	1,009,816,716
	<i>Medicaid Cluster Total</i>	\$ <u>1,012,163,957</u>
 <i>Disability Insurance/SSI Cluster</i>		
96.001	Social Security Disability Insurance	5,737,525
	<i>Disability Insurance/SSI Cluster Total</i>	\$ <u>5,737,525</u>

**STATE OF VERMONT**  
 Schedule of Findings and Questioned Costs  
 Year ended June 30, 2015

**(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:
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***Adverse Opinions***

Children's Health Insurance Program (CFDA #93.767)  
 Medicaid Cluster (CFDA #93.775, #93.777, and #93.778)

**STATE OF VERMONT**

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

***Modified Opinions***

- SNAP Cluster (CFDA #10.551 and #10.561)
- Child Nutrition Cluster (CFDA #10.555 and #10.559)
- Unemployment Insurance (CFDA #17.225)
- Airport Improvement Program (CFDA #20.106)
- Special Education Cluster (CFDA #84.027 and #84.173)
- Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA #84.126)
- TANF Cluster (CFDA #93.558 and #93.716)
- Low-Income Home Energy Assistance (CFDA #93.568)
- ACA – State Innovation Models: Funding for Model Design and Model Testing Assistance (CFDA #93.624)
- Foster Care – Title IV-E (CFDA #93.658)
- Adoption Assistance (CFDA #93.659)
- Homeland Security Grant Program (CFDA #97.067)

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?

  x   yes             no

**STATE OF VERMONT**  
 Schedule of Findings and Questioned Costs  
 Year ended June 30, 2015

***Identification of Major Programs***

<b>CFDA Number</b>	<b>Name of federal program or cluster</b>
SNAP Cluster:	
10.551	Supplemental Nutritional Assistance Program
10.561	State Administrative Matching Grants for the Supplemental Nutritional Assistance Program
Child Nutrition: Cluster:	
10.555	National School Lunch Program
10.559	Summer Food Service Program for Children
WIA Cluster:	
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.278	WIA Dislocated Worker Formula Grants
Highway Planning and Construction Cluster:	
20.205	Highway Planning and Construction
20.219	Recreational Trails Program
Drinking Water State Revolving Fund Cluster:	
66.468	Capitalization Grants for Drinking Water State Revolving Funds
Special Education Cluster:	
84.027	Special Education – Grants to States
84.173	Special Education – Preschool Grants
TANF Cluster:	
93.558	Temporary Assistance for Needy Families
93.716	ARRA – Temporary Assistance for Needy Families Supplemental Grants
CCDF Cluster:	
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of 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

**STATE OF VERMONT**

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

<b>CFDA Number</b>	<b>Name of federal program or cluster</b>
Other Programs:	
12.401	National Guard Military Operations and Maintenance (O&M) Projects
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
17.225	Unemployment Insurance
20.106	Airport Improvement Program
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
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance
93.624	ACA – State Innovation Models: Funding for Model Design and Model Testing 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
93.959	Block Grants for Prevention and Treatment of Substance Abuse
97.067	Homeland Security Grant Program

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

\$6,305,279

Auditee qualified as low-risk auditee?

\_\_\_\_\_ yes      x   no

## STATE OF VERMONT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

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

##### **Finding 2015-001 Department of Vermont Health Access Eligibility Waiver for Global Commitment Expenditures**

###### ***Background***

During fiscal 2015, \$1.4 billion in expenditures were incurred in the Global Commitment Fund for human services activities. A significant portion of these expenditures were for benefit payments made to Medicaid eligible claimants. Funding for the Global Commitment Fund comes from federal grants which are matched with General and Special Fund dollars.

###### ***Finding***

Throughout fiscal 2015, the State continued to have operational problems with adopting the Federal Affordable Care Act due to system limitations within their new benefit eligibility system, Vermont Health Connect (VHC). During fiscal 2014, quarter 4, (as noted in A-133 report finding 2014-051) the State began automatically re-enrolling individuals in the Medicaid program without the proper eligibility review as required under their federally approved State Plan. This process continued throughout fiscal 2015 and was done to prevent a significant number of Medicaid beneficiaries from losing their coverage due to system limitations. As such, the State operated out of compliance with their approved Medicaid State plan throughout the entire fiscal year and may have been providing Medicaid benefits to ineligible claimants. Subsequent to year end, and at our request, the State worked with CMS to obtain a written waiver retroactive to April 1, 2014 when auto-renewals first began in order to get the State into compliance. The written waiver was received on November 13, 2015, approximately 5½ months after year end. Throughout the 2014 and 2015 audits the Department maintained that they had verbal CMS approval to automatically re-enroll claimants without reviewing eligibility. Throughout the audits, 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, however the Department did not provide any documentation.

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

###### ***Recommendation***

We recommend that the Department of Vermont Health Access continue to review, and update as necessary, its policies and procedures to ensure that they operate in accordance with their State Plan and that written waivers are obtained in a timely manner to ensure that the State operates in compliance.

###### ***Management Response***

Each department is responsible for ensuring that they have appropriate procedures to ensure they operate in accordance with their State Plan. The department will work with the Oversight & Monitoring Unit to ensure the department's policies and procedures are accurate and current. The State and CMS work iteratively and collaboratively to discern when a waiver is needed and if so what should be contained within the waiver. Regrettably, the State has little to no control over when CMS will actually execute waivers but will continue to partner with them in order to obtain appropriate documentation.

**STATE OF VERMONT**

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

***Rejoinder***

While we agree that the Department is responsible for ensuring that they have appropriate procedures in place to ensure they operate in accordance with the State Plan and comply with Federal regulations, the Department clearly was not in compliance during the last quarter of fiscal 2014 and all of fiscal 2015. Although the State may have been in contact with CMS and received a 'verbal approval', State officials could provide no evidence of such conversations or approval. Documentation to support such an important requirement should have been discussed, documented and obtained from CMS as soon as the noncompliance became known to State officials and should not have been sought and obtained only to satisfy the request of the State's auditors. As of March 21, 2016 the State currently appears to be out of compliance for fiscal 2016. Without timely documented waiver from CMS, the State faces the risk that the 2016 noncompliance may impact the State's CAFR.

## STATE OF VERMONT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

#### **Finding 2015-002 Department of Vermont Health Access Health Exchange Premium Reconciliation and Settlement Costs**

##### ***Background***

Under the Patient Protection and Affordable Care Act (PPACA) 2010 HR3590, or Affordable Care Act, States had the option to implement a state run health insurance exchange or participate in the federal government exchange. The State of Vermont opted to create a state run exchange which is managed by the Department of Vermont Health Access (DVHA). DVHA has contracted with a third party to operate the premium processing work in support of the Exchange. DVHA provides the third party with participant data which also details how the premium will be covered which may come from up to five sources: federal cost sharing reduction, state cost sharing reduction, federal advanced premium tax credit, state subsidy (i.e., Vermont premium assistance) and member share. The third party is responsible for billing and collecting the state cost sharing reduction, the Vermont premium assistance and the member share and then remitting payment to the insurance carrier. Payments are not remitted to the insurance carriers until 100% of the amounts due are collected from the State and the member.

##### ***Finding***

Throughout fiscal 2015, the State continued to have operational problems with adopting the Federal Affordable Care Act due to system limitations within their new benefit eligibility system, Vermont Health Connect (VHC). Due to the functionality issues with the VHC system there were numerous eligibility differences between the VHC system, the insurance carriers' systems and the third party premium invoice processor, which resulted in difficulties in matching premium payments (made by the State and members) needing to be remitted to the carriers. As a result of these functionality problems we noted the following control issues:

- 1) Quarterly, the third party premium processor is required to provide a report detailing amounts that have been matched and remitted to carriers, as well as a report of collected but unmatched funds. Due to the functionality problems, the eligibility data among the various systems has not been reconciled timely. At June 30, 2015 the third party had collected approximately \$5 million in payments from the State and/or members that had not been reconciled. The State is aware of this problem and working with the third party premium processor to reconcile, but is uncertain as to when this will be completed. As a result, there are potential liabilities or assets not being properly accounted for.
- 2) Efforts surrounding the reconciliation of enrollment information by both Blue Cross Blue Shield of Vermont (BCBS), the primary insurance carrier for enrollees under the health exchange, and the State of Vermont resulted in disputes regarding rights and obligations under the Qualified Health Plan (QHP) Agreement between BCBS and the State. These disputes were resolved by the State and BCBS entering into a settlement agreement on August 13, 2015 whereby the State agreed to pay BCBS a net of \$1.6 million and BCBS released the State from liability for (a) all non-Medicaid claims incurred related to calendar year 2014 activity and paid by BCBS for individuals granted enrollment through the Vermont Health Benefit Exchange (VHBE), including those whose coverage was ultimately not effectuated in, or were retroactively dis-enrolled from a Qualified Health Plan at the time of service; (b) all premiums or accounts receivable owing for individuals enrolled through VHBE for coverage effective in calendar year 2014; (c) any and all liability claims for persons enrolled in "shell plans" in calendar year 2014; (d) any and all liability for premiums or paid claims paid for individual 2014

## STATE OF VERMONT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

Qualified Health Plans effectuated after November 15, 2014, that were never enrolled through VHBE; and (e) claims in law or in equity related to the reconciliation of 2014 enrollment records between BCBS and VHBE, including any uncollected 2014 premiums or 2014 paid claims by BCBS. This settlement was paid out of General Funds.

The reconciliation issues have continued into calendar year 2015 and at fiscal year end, June 30, 2015, the State was unable to determine what amount may be owed to BCBS for similar issues that resulted in the calendar year 2014 settlement and as a result the State has not recorded a liability.

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

#### ***Recommendation***

We recommend that a timely reconciliation of eligibility data between the key systems be performed to ensure any assets or liabilities are accurately reflected in the State's financial statements and that payments are remitted to insurance carriers timely.

#### ***Management Response***

Evolution One, formerly known as Benaissance is working with Optum to develop reconciliation reports. The State has made progress in its efforts to automate reconciliation with its carrier and billing partners. A series of reports have been created that run monthly to identify discrepancies. While automated responses to correct those discrepancies have not yet been delivered, the State's operations team has developed business processes that leverage data scripting approaches to allow updates to occur, either through batch processes or through individual case triage as needed.

The State is currently transitioning its time and materials Design Development Implementation (DDI) contract to a fixed price contracted delivery approach. This transition is targeted for completion by June 30, 2016 and the State intends to include an automated reconciliation solution in remaining VHC scope.

## STATE OF VERMONT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

#### **Finding 2015-003 Department of Vermont Health Access and Buildings and General Services 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.

Individual departments and agencies 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.

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. GASB 51 paragraph 10 defines preliminary project costs as "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". 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 group's activities into 3 stages (Preliminary Project Stage, Application Development Stage and Post-Implementation/Operation Stage) and when expenditures should be capitalized versus expensed.

## STATE OF VERMONT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

#### *Finding*

##### Department of Vermont Health Access (DVHA)

DVHA has three major computer system projects that were in progress during the past two fiscal years: the Vermont Health Connect (VHC) system, the Medicaid Management Information System (MMIS), and the Integrated Eligibility System (IE). The VHC system went live on October 1, 2013 and is used to process and determine eligibility for coverage under the state based health exchange and for Medicaid applicants. Prior to VHC, all Medicaid determinations were performed within the ACCESS system and due to functionality issues with VHC, a significant number of Medicaid beneficiaries are still maintained with ACCESS. MMIS is used to process all Medicaid claims and is able to sync directly with ACCESS to obtain updated claimant eligibility data. 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. A new MMIS system is in the early proposal stages. The State is also in the proposal stage for developing 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 our testwork over the capital assets at DVHA, we noted the following:

- 1) When performing testwork over the capital asset rollforward for DVHA, we noted there was \$44.7 million remaining in construction in progress (CIP) at year end even though VHC was implemented in the prior fiscal year and therefore moved out of CIP and into depreciable assets. During discussions with DVHA it was determined that a portion of the platform costs had not been moved out of CIP. The platform currently supports VHC and will support MMIS and IE once implemented and therefore DVHA only capitalized a portion of the costs and left portions in CIP that would be capitalized with the MMIS and IE systems. Due to the inconsistency in capitalizing costs in accordance with accounting standards we requested that DVHA work with Finance and Management to perform an analysis to ensure that the expenditures residing in CIP were in accordance with GASB 51.

The analysis determined that the majority of the balance in CIP should have been either capitalized or expensed. Specifically, a) the entire platform costs should have been capitalized when VHC went live in fiscal 2014 as the system couldn't operate without the platform. This resulted in an additional \$28.7 million being capitalized; b) \$14.6 million of the CIP balance related to preliminary project costs for the MMIS and IE systems and should have been expensed as incurred in accordance with GASB 51; and c) \$0.6 million should have been capitalized as part of MMIS-PBM project which was implemented in fiscal 2015. These adjustments resulted in an understatement of Depreciable Capital Assets in the amount of \$29.3 million, an understatement of expenditures in the amount of \$14.6 million and an overstatement in Construction in Progress in the amount of \$43.9 million. The capital asset footnote was corrected by Finance and Management.

- 2) 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, 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.

## STATE OF VERMONT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

#### **Buildings and General Services (BGS)**

During our testwork over capital assets at BGS, we noted the following:

- 1) A \$5.1 million renovation project over office space at National Life was not identified as needing to be capitalized until fiscal 2015, even though the project was completed in January 2014 (fiscal 2014). We noted that although BGS correctly coded the in service date to fiscal 2014, no depreciation was recorded until fiscal 2015.
- 2) There appears to be no formal process in place to identify completed projects and remove the associated costs from CIP, and begin depreciating the costs with in Depreciable Capital Assets.

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

A similar finding was noted over DVHA as part of the June 30, 2014 report and was included as finding 2014-002.

#### ***Recommendation***

We recommend that DVHA develop formal policies and procedures over intangible assets, specifically internally generated software, to help ensure compliance with GASB 51 and that assets are completely and accurately reported and properly capitalized. Further, we recommend that DVHA and BGS develop formal policies and procedures for identifying completed projects and removing the associated cost from CIP in a timely manner.

#### ***Management Response***

##### DVHA's Response

DVHA and AHS agree with the conditions described by the auditor for FY 15. The state has analyzed its accounts and adjusted balances to reflect appropriate expenditures for proper CIP inclusion in accordance with GASB 51 and for capitalizing assets to be depreciated. Procedures are now in place for reviewing CIP quarterly so that completed projects are identified and removed on a timely basis.

DVHA/AHS has a written policy/procedure to address capitalizing intangible assets. This policy covers internally generated software. A copy has been forwarded to the Vermont Department of Finance & Management (DF&M).

##### BGS's Response

BGS relies on the Financial Services Division of the Agency of Administration (AoA FSD) for all its financial activity including reporting and capitalizing all assets. The FSD follows the procedures as outlined in VISION Procedure #1 issued May 1, 2004, as amended, by the Department of Finance & Management. Further, the FSD adheres to its own internal formal policy Number 003-01 effective June 1, 2002 regarding assets, capital assets, and capital leases. The internal policy is annually reviewed and updated for any policy or accounting changes. The Construction in Progress account is reviewed twice a year with BGS senior staff and project managers to determine what is completed, placed into service, and ready to be capitalized in the VISION system. The asset management module calculates the appropriate depreciation charges for the fiscal year so it is important that all assets completed and placed into service are capitalized and booked in VISION

## STATE OF VERMONT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

by June 30 of any given fiscal year. This process was recommended and approved by the Department of Finance & Management's Office of Statewide Reporting several years ago and continues to be followed.

The \$5.1 million of expenditures not capitalized in FY 2014 for National Life were the result of confusion on who was to book these costs as a result of the 'move back' after Tropical Storm Irene. National Life is not a state-owned building. Work on other non-BGS-owned buildings are treated as state donations to the owner of the facility. When appropriate, i.e., after the asset is completed and placed into service, BGS sends a letter to the owner of the facility to book the asset addition for their own accounting purposes and treats the spending as an expense, i.e., donated asset, and removes the cost out of the CIP account. In this case, we were later told these costs should have been retained by the state and booked as leasehold improvements in the BGS Property Management program. FSD will follow the precedent now established from this case going forward.

#### DF&M's Response

The Department of Finance & Management met with BGS and AoA FSD to discuss their CIP policies, our expectations for CIP reporting, and to improve communication related to the CIP process. We discussed the need for timely updates to CIP after their semi-annual reviews, and the need for a thorough review of the CIP balances at year end to ensure accurate CAFR preparation. In addition, we discussed the need to ensure new staff members responsible for CIP are aware of the various CIP policies & procedures. Before year-end we will plan to meet with DVHA to have similar discussions about CIP as we did with BGS.

We will update the end of year closing instructions related to CIP to instruct departments that they should perform a thorough review of CIP balances at year end to determine if any adjustments as required to ensure we are reporting accurate CIP balances in our CAFR.

## STATE OF VERMONT

### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

#### **Finding 2015-004 Statewide Review and Analysis of Accounts Receivable**

##### ***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 however, adjustments to the financial statements continue to be identified through the external audit. The cause of these adjustments is in part due to personnel changes in the individual departments and agencies, the need for more financial reporting knowledge in the individual departments and agencies, and departments and agencies not having adequate control procedures over the recording of financial data.

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. Also included in Finance's year-end closing instructions is the following requirement:

*Your department is required to maintain a detail listing to support the receivables reported on the CAFR-1. This listing should be readily available should the receivable be selected for detail testing by the auditor.*

During the fiscal 2015 we noted several adjustments relating to receivables across multiple departments and agencies. Specifically,

- 1) The Motor Fuel Tax is managed by the Agency of Transportation (AOT). The tax is recorded in several governmental funds (Transportation, Special and Fish & Wildlife) and consists of the state tax, a \$0.01 petroleum clean up fee, a Motor Fuel Transportation Infrastructure Assessment (MFTIA), and a Motor Fuel Tax Assessment (MFTA) broken down as follows:
  - \$0.121 per gallon state tax;
  - \$0.01 petroleum clean up fee;

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- MFTIA in the amount of 2% of the average quarterly retail price; and
- MFTA in the amount of \$0.134 per gallon or 4% of the tax-adjusted retail price upon each gallon of motor fuel sold by the distributor not to exceed \$0.18, whichever is greater.

The Department of Finance and Management (F&M) takes the Motor Fuel receivable calculated by AOT, which consists of the various fees listed above, and allocates the revenue and related receivable across the Transportation fund, Special fund, and Fish & Wildlife fund per statutory guidelines. This involves the use of a spreadsheet with manual data input to arrive at the proper allocation. For fiscal 2015, AOT did not properly calculate the Motor Fuel receivable provided to F&M as Use Tax on rental vehicles was incorrectly included causing the total Motor Fuel Tax to be overstated, which in turn overstated each of the allocations resulting in an overstatement of revenue and receivables that amounted to \$0.366 million within the Transportation fund, \$0.015 million within the Special Fund and \$0.009 million within the Fish & Wildlife Fund.

- 2) The Department of Financial Regulation (DFR) incorrectly prepared their CAFR-1 form and included actual cash collections relating to Captive Insurance Registration and Captive Exam Fees received throughout fiscal 2015 rather than the receivable due at year end. This resulted in an overstatement of revenue and receivables within the Special Fund amounting to \$2.2 million. This error was a result of new personnel completing the CAFR-1 form and the form not being reviewed for accuracy prior to submission.
- 3) The Department of Vermont Health Access (DVHA) collects revenues from fees assessed for drug providers pursuant to Section 1927 of the Social Security Act. DVHA switched drug rebate vendors during fiscal 2015. As of June 30, 2015, the new vendor had not migrated the drug rebate data from the prior vendor and thus had no way of linking checks received to invoices and therefore was unable to track amounts due and was unable to rebill as necessary. As the receivable amounts billed by the previous vendors, but not yet collected by the new vendor, are not actively being perused for collection, it is uncertain whether DVHA has a valid receivable recorded. As such, the revenue and receivables amounts reported on the CAFR-1 were overstated by \$3.1 million within the Global Commitment Fund and \$0.135 million within the Federal Revenue Fund.
- 4) The Agency of Human Services' (AHS) central office requests funds from the Federal government against various grant agreements to fund the different programs and services AHS provides. Funds are drawn throughout the quarter based on estimates, in order for the State to have the necessary funds to administer the programs. At the end each quarter, a reconciling draw is calculated as needed so that the grant funds received for the quarter equal the funds expended for the quarter. A receivable is created if the funds have been underdrawn throughout the quarter, and a liability recorded if the funds have been over drawn. During the process for the quarter ended June 30, 2015, there were multiple draws for the Medical Assistance Program grant due to misreported or omitted information from the initial reconciling draw calculation, resulting in overstated revenue and receivables on the CAFR-1 in the amount of \$5.1 million within the Federal Revenue Fund.

While Finance is primarily responsible for the preparation of the State's financial statements, responsibility for the underlying data and activity resides with the respective departments. 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.

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

A similar finding was noted as part of the June 30, 2014 report and was included as finding 2014-001.

#### ***Recommendation***

We recommend that the Department of Finance and Management work with the departments to perform a comprehensive review of their policies and procedures for recording year end receivables to help ensure that the State's financial statements are complete and accurate. Finance should work with each department to provide them with the knowledge and guidance relating to financial accounting and reporting concepts.

We also recommend that individual departments and agencies carefully review amounts reported on the CAFR-1 to ensure completeness and accuracy prior to submission to the Department of Finance and Management.

We further recommend that the Department of Finance and Management evaluate its procedures for reviewing year end closing packages and for analyzing data for completeness and accuracy of financial information received.

#### ***Management Response***

##### DF&M's Response

The Department of Finance & Management continues to work with departments and agencies. Spring 2016 we will develop a practice aid that will provide guidance on generally accepted accounting principles for accounts receivable. This will be sent to all VISION users that have access to enter deposits and receivables. We will meet with individual departments and agencies to answer any questions on how this guidance applies to their revenues and review their process for maintaining receivables and support for amounts reported on the CAFR-1. The knowledge gained by the Department of Finance & Management and the employees responsible for preparing the CAFR-1 should improve the accuracy of the data submitted on the CAFR-1.

##### AOT's Response

AOT has appropriate internal controls to prevent material misstatements in the State's Comprehensive Annual Financial Report (CAFR). The error in FY2015 reporting was the result of an isolated mistake. AOT's internal review process will be strengthened by requiring more detail to be provided to AOT's reviewer prior to submission of the CAFR reports to the Department of Finance and Management.

##### DFR's Response

The DFR Business Manager is responsible for collecting and reporting all closeout reports to Finance and Management. Currently, data for the CAFR 1 is received from each division responsible for receiving funds. The incorrect SFY15 numbers entered on the sheet were questioned, however, confirmation was not requested, only an explanation for the increase from SFY14. For future years we will do two things differently; first we will do a better job of training our new employees on what the purpose of the reports are and what data is needed. Secondly, the Business Manager will request the detail behind the numbers, to confirm that the correct information is being submitted. This should result in correct data being reported in future years.

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#### DVHA's Response

The DVHA Business Office will work to continue improve its year end recording process. The circumstance was unique in that GHS was not able to create systematically generated past due notices until the data migration from the legacy systems were completed. GHS was performing account reviews and manufacturers that have not remitted payment for amounts invoiced in prior periods were subject to collection activities.

Given the delay in collection procedures by GHS as a result of their difficulties migrating HP data, the DVHA Business Office felt it was prudent to make an adjustment to the Amount of Total Receivable Estimated to be Uncollectible for the drug rebate allowance. GHS is pursuing collection efforts to obtain the outstanding balances and the Amount of Total Receivable Estimated to be Uncollectible will be reduced.

According to GHS, current operations of invoicing, collecting, sending out late notices, and working disputes for GHS quarters have been the top priority. The SOPs were finalized in November 2015; report development is ongoing, and the data migration was completed, which will allow them to work the older balances.

#### AHS CO's Response

The agency agrees with the finding. AHS initially submitted the year end CAFR-1 report overstating the Medicaid receivable. Upon additional reconciliation processes, related to year end reporting, AHS discovered the error and reported it to the Department of Finance & Management. AHS submitted an amended CAFR-1 with the correct receivable amount. To avoid this issue going forward, AHS will change the timing of the reconciliation processes to ensure that they coincide with the earliest close-out reporting deadline rather than staggering the reconciliations as was done for the SFY 15 closeout.

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#### **Finding 2015-005 Department of Labor Unemployment Compensation Trust Fund – Claims Expense**

##### ***Background***

To qualify for benefits, a claimant must have earned a certain amount of wages, or have worked a certain number of weeks or calendar quarters within the base period, or meet some combination of wage and employment requirements. The Vermont Department of Labor (VDOL) is responsible for determining whether claimants meet eligibility requirements outlined in State law to receive unemployment compensation benefits. One of the eligibility requirements is that claimants complete mandatory reemployment services as directed. Reemployment services are designed to increase claimants' chances of obtaining a job before they exhaust their benefits. Claimants with the highest probability of exhausting benefits are selected for participation. There are currently two services offered, Reemployment Eligibility Assessments (REA) and Reemployment Services (RES). Attendance and completion of either REA or RES is documented by local resource center staff in the Vermont Job Link workforce development system. Claimants who do not complete the services are considered "failed to report," and their unemployment benefits are denied until the service is rescheduled and completed.

##### ***Finding***

During our testwork over eligibility, we selected 40 claimants, of which 17 were required to complete mandatory reemployment services. In 1 instance we noted that the electronic enrollment file for the claimant was listed as "failed to report" but benefits were not stopped. Upon review of additional supporting documentation we were able to determine that the claimant had completed the reemployment service requirements even though it wasn't documented within the system. As a result of the error we extended our sample to review all claimants selected for RES within the same week as the claimant in our initial sample. There were 23 claimants in this population and in 5 instances the VDOL was unable to validate whether these individuals attended RES and in all cases benefits had not been suspended. Due to the number of errors the VDOL performed further procedures to determine the extent of un-substantiated claims and potential unemployment benefit overpayments in fiscal 2015. The VDOL reviewed all 1,307 claimants selected for RES during the state fiscal year and discovered 366 claimants had potential issues. The VDOL distributed the list of 366 claimants, sorted by office, to all of the regional offices with a data validation form and instructions to find all the hard copy case files and paperwork to substantiate that the required reemployment services had been completed. All 366 data validation forms were received back from the regional offices and the VDOL was able to validate the files on 252 claimants, which left 114 un-substantiated claimant files. These 114 claimants were paid \$0.4 million in benefits throughout fiscal 2015.

The finding appears to be systemic in nature and is considered a material weakness in internal control. This issue also impacts the A-133 testwork over the federal Unemployment Compensation program and a similar compliance finding has been reported as Findings 2015-017.

##### ***Recommendation***

We recommend that the VDOL review its procedures related to RES enrollment and data entry by regional staff and put into place review controls to ensure RES enrollment is properly and timely documented and communicated to the UI Division.

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#### *Management Response*

The Vermont Department of Labor, in administering the Reemployment Service (RES) program with UI claimants, was required to ensure that each UI claimant was scheduled for and received “Reemployment Service”. RES is intended to reduce a UI claimant’s duration on UI by engaging the claimant – early in his/her unemployment status-in job search assistance and work search activities.

As a result of VDOL staff error, some UI claimants were not scheduled for RES program services. The Department records reveal 1,307 RES claimants, of which 366 were identified for further review; and 252 of those were validated as properly processed and served. The Department was unable to substantiate (through case file review, case notes, database entries, etc.) RES services to 114 UI claimants. We cannot determine if the claimant was, or was not, scheduled and/or seen in the AJC for RES services. There is no indication that these 114 claimants engaged in any type of misrepresentation or fraud in relation to their UI claims and status.

VDOL Workforce Development division has, as recommended, reviewed and modified the RES enrollment procedures and controls. Regional Managers and staff conducting the RES program have the tools needed to ensure that RES enrollments are appropriate, timely, properly documented and communicated to VDOL’s UI division.

The Department has developed an RES supplemental protocol that directs staff members responsible for RES to check in and validate with the Regional Manager that the RES list has been received. At the end of each week, the staff member will report to the Regional Manager on what activities and/or actions have taken place for each participant scheduled for RES. RES participant files will reflect notes and entries of activities that took place along with F-87 forms that have been forwarded to the UI Division. VDOL Workforce Development division has also implemented a weekly RES activities tracking sheet to be used in all of our regional offices. The tracking sheet is reviewed at the end of every week by the Regional Managers to insure that all RES activities meet or exceed policy expectations. These records will allow Regional Managers to validate that RES activities are accurate. The RES supplemental protocol was put into place effective November 20, 2015.

In addition, VDOL Workforce Development reviews the RES program activities for accuracy and policy compliance. As of the time of this writing VDOL Workforce Development Central Office has gone through each and every participant account to substantiate the actions taken. VDOL Workforce Development generated a list of all RES participants, distributed this list sorted by office to all of the regional managers with the new RES Validation form.pdf (attached) and instructions to review all the hard copy case files and paperwork to substantiate the activity taken with the participant. The VDOL Workforce Development Central Office’s program manager continues to review RES participant/claimant files for accuracy; meaning that each and every participant/claimant account has been reviewed and validated. Any case files identified with issues during the process were dealt with immediately and any material errors were corrected.

When we are unable to substantiate the RES service in these cases, it is considered Department / Agency Error. Vermont’s employer-funded UI Trust Fund, with a current positive balance of approximately \$250M will be required to absorb the \$401,908 dollar costs of the Department / Agency Error, as is the case with any other issue of Department/Agency Error. There will be no federal funds involved in covering the costs of the unsubstantiated RES cases.

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#### **Finding 2015-006 Department of Labor Unemployment Compensation Trust Fund – Transfers**

##### ***Background***

Under Vermont Statute, Title 21: Labor Chapter 25: Employers' Health Care Fund Contribution, the Commissioner of Labor is empowered "to establish rules for the administration and collection of health care fund contributions under this chapter." The statute requires that "revenues from the health care fund contributions collected shall be deposited into the Catamount Fund established under 33 V.S.A. §1981 for the purpose of financing health care coverage under Catamount Health assistance". The statute established a calculation for employers to calculate their quarterly health care premium contribution.

All contributions from employers, including the healthcare payments, are originally recorded in the contributory employer account within the Unemployment Compensation Trust Fund. The payments related to healthcare payments are then transferred from the Unemployment Trust Fund to the Catamount Health Care Fund (a Special Revenue Fund), which is recorded as Special Assessment Revenue within the Catamount Health Employer Assessment account.

##### ***Finding***

During testwork over healthcare transfers, we reviewed the transfers initiated by the Vermont Department of Labor (VDOL) from the Unemployment Trust fund to the Catamount Fund related to the Catamount Health Employer Assessment and noted that several of the transfers were not recorded to the correct VISION account. These errors resulted in a \$1.3 million overstatement to the Pesticide Monitoring revenue account, which is a part of the Fee Revenue CAFR line, and a corresponding understatement to the Catamount Health Employer Assessment revenue account, which is a part of the Special Assessment Revenue CAFR line, within the Special Fund.

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

##### ***Recommendation***

We recommend that the VDOL review its procedures in place to ensure that staff are utilizing the correct VISION accounts when recording transfers. We further recommend that a review process be implemented to over the journal entry process.

##### ***Management Response***

An appropriate transfer was made from the Unemployment Trust Fund to the Catamount Fund; however, the wrong account code was used in VISION when the transfer was keyed in. During our quarterly checks and balances VDOL realized the mistake and corrected the transfer. VDOL has changed its procedures from a quarterly check and now, as part of month end closing procedures, VISION queries are run and checked for accuracy against deposits and transfers.

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**Finding 2015-007 Department of Labor  
Unemployment Compensation Trust Fund – Accounts Receivable Allowance  
Calculation**

***Background***

The Vermont Department of Labor (VDOL) reviews the allowance for doubtful accounts related to the past-due employer contributions due to the State on an annual basis. Individual employer accounts are identified the Aged Delinquency List and the Delinquent Account List reports from the CATS system. These reports detail, by employer, the amounts owed for delinquent contributions plus amounts owed for interest, penalties and other charges assessed as well as past due amount owed for health care assessments and interest. Individual employer accounts are investigated to determine the status of receivables and the collectability of the accounts. Employer accounts may be collectible depending on whether or not an appeal is pending, how long the balance has been outstanding, when the account was turned over to the attorney and whether the employer is still in business. A doubtful amount is calculated for each overdue employer who has a balance of \$500 or greater.

***Finding***

During our testwork over taxes receivable and the related reserve for uncollectible accounts we noted 4 instances, out of the 14 items selected, where the delinquent balances from the Aged Delinquency List and the Delinquent Account List were greater than the total receivable balance recorded. In accordance with state statute the VDOL recorded the delinquent contributions in the Unemployment Compensation Trust Fund while the interest, fines and penalties collected were recorded in the Unemployment Compensation Contingency Fund, a Nonmajor enterprise fund. Although the interest, fines and penalties were properly recorded in the Unemployment Compensation Contingency Fund, the VDOL used the total of all amounts on the report to calculate its reserve and as a result the allowance for doubtful delinquent contributions in the Unemployment Compensation Trust Fund was overstated by \$0.7 million.

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

***Recommendation***

We recommend that Vermont Department of Labor review its process for recording the allowance for doubtful accounts and properly match the recorded reserve against the funds where the receivable is recorded.

***Management Response***

The VDOL acknowledges this systemic issue. The IT Administrator has been notified about the reporting issues with the Doubtful Allowance and the current discrepancy in the 313 delinquency report. The department acknowledges corrections need to be made to the existing report and that additional reports need to be created to ensure accurate reporting going forward. Below is a listing of the change/additions that have been requested of the Information Technology (IT) Unit. The department recognizes that these reports need to be in place prior to June 2016 for the next FY audit.

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Changes to the Aged Delinquency Report 313 -

- Health care assessment interest needs to be included on the aged report the same as contribution interest

New report request criteria 1 –

- Aging of only delinquent contributions

New report request criteria 2 –

- Aging of delinquent Health care assessment and Health care assessment Int only

New report request criteria 3 –

- Aging of delinquent PINT – Penalties, fees and interest.

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#### **Finding 2015-008 Building and General Services Leases Classification**

##### ***Background***

The State is committed under various operating leases covering real property (land and buildings) and equipment. Although lease terms vary, certain leases continue subject to appropriation by the General Assembly. If continuation is reasonably assured, leases requiring appropriation by the General Assembly are considered noncancelable leases for financial reporting purposes. During fiscal 2015 the State paid \$17.2 million for payments under its various operating leases.

In accordance with GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements – GASB Statements*, paragraphs 211–271 establish standards of financial accounting and reporting for leases by lessees and lessors. From a lessee standpoint, leases may be classified as capital or operating. Capital leases are those that meet one or more of the following criteria: a) The lease transfers ownership of the property to the lessee by the end of the lease term; b) The lease contains a bargain purchase option; c) The lease term is equal to 75% or more of the estimated economic life of the leased property. However, if the beginning of the lease term falls within the last 25% of the total estimated economic life of the leased property, including earlier years of use, this criterion should not be used for purposes of classifying the lease; or d) The present value at the beginning of the lease term of the minimum lease payments, excluding that portion of the payments representing executory costs such as insurance and maintenance to be paid by the lessor, including any gain thereon, equals or exceeds 90% of the excess of the fair value of the leased property to the lessor at the inception of the lease over any related investment tax credit retained by and expected to be realized by the lessor. Operating leases include all other leases not meeting the criteria for a capital lease.

Buildings and General Services (BGS) performs an analysis to determine if leases are operating or capital leases based on the criteria above.

##### ***Finding***

During our review of the State's presentation and classification of leases, we noted that in fiscal 2015 BGS indicated that they entered into 12 new operating leases and no new capital leases. We selected 5 of the leases to perform testwork procedures over and noted the following:

- 1) BGS tracks lease details in a spreadsheet. The initial detail support provided contained multiple errors within the spreadsheet that resulted in lease activity not being accurately reported.
- 2) In 1 instance, we noted that the lease appeared to be misclassified as operating as the terms appeared to meet the criteria for a capital lease. We requested that Finance and Management review the lease terms and analysis prepared by BGS and it was determined that the lease should be recorded as a capital lease within the Property Management (Internal Service) Fund. Finance and Management corrected the accounting for this lease which resulted in the recording a long term capital lease payable of \$10.5 million (and related capital asset) and the lease terms being reported within the capital lease footnote.

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

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#### ***Recommendation***

We recommend that a) BGS review its policies and procedures over recording leases to ensure that leases are reported in accordance with accounting standards; b) BGS review its procedures for tracking leases within its spreadsheets to ensure that the spreadsheet is accurately prepared and does not contain formula or other errors; c) the Department of Finance and Management work with BGS to provide them with knowledge and guidance relating to financial accounting and reporting concepts to ensure that leases are properly classified; and d) the Department of Finance and Management evaluate its procedures for reviewing lease information provided in year-end closing packages to ensure completeness and accuracy of information received.

#### ***Management Response***

BGS relies on the Financial Services Division of the Agency of Administration (AoA FSD) for all its financial activity including reporting and capitalizing all assets. The BGS Property Management Division staff review all leases against the criteria outlined by the State Treasurer and the Secretary of Administration in the memo titled Leasing Office and Other Equipment, issued October 13, 2005 especially the section defining a capital lease. Once reviewed and determined that the definition may be impacted, BGS submits the potential lease to the State Treasurer's office for confirmation and ensure it is categorized correctly and known by all the parties involved, including the AoA FSD. The Department of Finance & Management (DF&M) will work with the BGS Property Management Division and AoA FSD staff members to ensure they understand and are following GASB 62 requirements to properly classify leases.

The AoA FSD will assign an additional staff person to review all spreadsheets submitted to DF&M as part of the year-end closing procedure to ensure that all spreadsheets are correct and accurate in order to avoid this situation in the future.

The DF&M will evaluate its procedures for reviewing lease information that we receive from the departments as part of the year-end closing packages to ensure completeness and accuracy of information received. In order to help ensure accurate information DF&M will request a copy on all new lease agreements executed in the current fiscal year and departments' analysis supporting whether the lease is capital or operating. In addition, DF&M will ensure departments are aware they can ask us for technical assistance in performing the capital vs. operating lease analysis.

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#### **Finding 2015-009 Department of Vermont Health Access Graduate Medical Education Payment Calculation**

##### ***Background***

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 (SPA) 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 the Hospital.

Upon approval of this SPA, DVHA entered into a contract with the University of Vermont (UVM) and Fletcher Allen Health Care whereby the State and UVM will provide certain Medicaid GME payments to Fletcher Allen with the State using its Federal Medicaid dollars and UVM providing the Nonfederal required matching funds. The purpose of these supplemental payments is to ensure access to quality, essential professional health services for Medicaid beneficiaries through care provided by teaching physicians and teaching hospitals.

##### ***Finding***

During our testwork over these supplemental payments, we noted that the State overpaid Fletcher Allen Health Care for the teaching hospital portion. As outlined in the SPA, the teaching hospital payment is allowed for the lesser of a) 95% of the sum of the Direct Graduate Medical Education (DGME) and Indirect Medical Education (IME) costs, or b) the difference between the teaching hospital's "Hospital Specific Limit" and the Disproportionate Share Hospital (DSH) payment. During state fiscal year 2015, the consultant hired by DVHA to calculate the allowed payment determined that method "a" resulted in the lesser payment, however method "b" was actually the lower the amount and therefore an overpayment was made. The payment made under method "a" was \$5.3 million, compared to \$4.7 million which is the allowed amount based on method "b." DVHA does not have procedures in place to review the calculations prepared by the consultant.

The \$0.6 million overpayment results in a disallowed cost for the portion paid with Federal funds (\$0.3 million). Finance and Management corrected the error in the Global Commitment Fund as of year-end.

The finding appears to be systemic in nature and is considered a significant deficiency. This issue also impacts the A-133 testwork over the federal Medicaid program and a similar compliance finding has been reported as finding 2015-045.

##### ***Recommendation***

We recommend that DVHA implement procedures to review the GME payment calculations prepared by the consultant to ensure they are accurate and in accordance with Federal regulations.

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***Management Response***

AHS/DVHA has set forth an operational protocol whereby both methodology “a” and methodology “b” will be calculated by the consultant and peer reviewed in a face-to-face meeting by both the person making the computations and a peer reviewer in DVHA’s Reimbursement Unit that is familiar with the state plan amendment methodology.

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**Finding 2015-010 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 2015 audit, the prior year findings were followed up on to ascertain if the identified control deficiencies had been corrected. The below computer systems were part of this follow up and the following findings continued to be noted:

Findings and Recommendations	
1.	<p><b>Application Name:</b> State Network &amp; Data Center</p> <p><b>Responsible Agency:</b> Department of Innovation and Information (DII)</p> <p><b>Purpose:</b> Statewide local area network</p>
	<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> <p><b>Management Response</b></p> <p>We are in the process of upgrading different CICS regions. Due to the complexity, CICS is being upgraded in stages. We plan to upgrade the mainframe Operating System in August of 2016. As part of this upgrade, many 3rd party software will have to be upgraded as well. We expect most 3rd party software should be able to accept complex password. With staff shortage, addressing complex password issue has been rescheduled to after the operating system is upgraded. Getting the Operating System in place on time is very critical, since the support for the current version of the operating system ends at the end of September, 2016. After the Operating System upgrade, we plan to perform</p>

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	compatibility tests on complex password on all software. If all goes well, we should be able to implement complex password on the 4th quarter of 2016.
2.	<p><b>Application Name:</b> VISION Financials</p> <p><b>Responsible Agency:</b> Department of Finance and Management</p> <p><b>Purpose:</b> Statewide accounting system</p> <p>The initial control deficiency related to a variety of segregation of duties issues, including:</p> <ul style="list-style-type: none"> <li>• users have superuser_no_sec, vendor processing, and manager roles that allow them to add a vendor, enter a voucher, and approve a voucher.</li> <li>• users have superuser_no_sec and manager roles.</li> <li>• users have been granted the manager role that allows them to enter a voucher and approve a voucher.</li> </ul> <p>In addition, there is no edit in VISION that would preclude a user from entering a voucher and approving this same voucher. 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><i>Management Response</i></b></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</p>

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	<p>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> <p>The Department of Finance and Management recently completed the requirements gathering process that will be the foundation for the upgrade of VISION from version 8.8 to 9.2. During that effort we identified the need to modify our accounts payable security roles to decouple the data entry role from the approval role. We will also implement enhanced workflow functionality that will be delivered with the upgraded version.</p>
3.	<p><b>Application Name:</b> ETM</p> <p><b>Responsible Agency:</b> Department of Taxes</p> <p><b>Purpose:</b> State Tax System</p>
	<p>a. 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"> <li>• Limit privileged support access to the minimum needed to support the application in production.</li> <li>• Enforce an appropriate separation of duties between software development staff and those migrating software into.</li> </ul> <p>We further recommend that periodic reviews of changes moved to production be conducted to discourage and to identify any unauthorized changes.</p> <p>b. 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</p>

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	<p>associated BCP be treated as a living document subject to ongoing revision and that it be tested at least annually.</p> <p>c. No daily operations log/checklist is 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><b>Management Response:</b></p> <p>a. ETM is in break/fix mode only. There is only 1 state person with the ability to make changes to production code. Also the Department has a contract with a managed services firm to also help in the case of emergency code fixes. 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.</p> <p>b. 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.</p> <p>c. Batch processing is the only operational aspect of ETM being performed and our online batch logs and job scheduler output is sufficient.</p>
4.	<p><b>Application Name:</b> STARS</p> <p><b>Responsible Agency:</b> Agency of Transportation</p> <p><b>Purpose:</b> 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</p>

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	<p>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><b>Management Response</b></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 2014 and testing on 3/27/2015 demonstrated that VTrans can now successfully restore all sections of STARS. Testing was completed by Maricela Acosta of VTrans IT department upon notification from DII that STARS disaster recovery was ready for final testing, particularly at the disaster recovery site (the one remaining test that had not yet been successfully completed).</p>
5.	<p><b>Application Name:</b> FARS, VABS and CATS</p> <p><b>Responsible Agency:</b> Department of Labor (DOL)</p> <p><b>Purpose:</b> 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><b>FARS:</b></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>

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	<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>
c.	<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>
d.	<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>
e.	<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>
f.	<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> <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>

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**VABS and CATS:**

- g. 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.

The current VSE/ESA system limits passwords from 3 to 6 characters in length.

We recommend that the DOL IT upgrade to a newer version of IBM o/s that supports longer passwords.

- h. 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.

We recommend 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.

- i. 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.

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.

***Management Response***

- a. DOL has developed a VABS/FARS/CATS specific security policy named Policy 21 – “Security Policies for the Labor Enterprise Computing (LEC) System” which is based upon existing DII policy. This policy was implemented on February 25, 2015.

- b. 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

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	<p>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> <p>c. VDOL Policy 21 “Security Policies for the Labor Enterprise Computing (LEC) System” was released on February 25, 2015 and was fully implemented by March 31, 2015.</p> <p>d. 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>e. 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. In November 2015, we updated a server and purchased a second for mirroring purposes. The main server is now installed and in production. The mirror server has been created and we are testing it at our central location in Montpelier. Once it has passed the testing it will be moved to our Burlington site and we will contract with BerryDunn by Fall 2016 for final testing and implementation.</p> <p>f. 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/CATS password screen without first complying with these standards.</p> <p>g. 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>i. 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. In November 2015, we updated a server and purchased a second for mirroring purposes. The main server is now installed and in production. The mirror server has been created and we are testing it at our central location in Montpelier. Once it has passed the testing it will be moved to our Burlington site and we will contract with BerryDunn by Fall 2016 for final testing and implementation.</p>
6.	<p><b>Application Name:</b> Management System (WMS), Point of Sale (POS), and Sequoia</p> <p><b>Responsible Agency:</b> Division of Liquor Control</p> <p><b>Purpose:</b> 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>

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	<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><b><i>Management Response</i></b></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. 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><b>Application Name:</b> BFIS</p> <p><b>Responsible Agency:</b> Agency of Human Services (AHS)</p> <p><b>Purpose:</b> 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> <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><b><i>Management Response</i></b></p> <p>The State of Vermont implemented a new ticketing system called LANDesk on December 1, 2014. DCF worked with them to develop a workflow process in order to use this tool for ticket tracking and resolution. The functional start date of this tool was January 19, 2016.</p>

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8.	<p><b>Application Name:</b> SSMIS</p> <p><b>Responsible Agency:</b> Agency of Human Services (AHS)</p> <p><b>Purpose:</b> 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 style="padding-left: 40px;">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 style="padding-left: 40px;">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><b>Management Response</b></p> <p>a. Compliant password parameters were implemented as part of the SSMIS Upgrade project. The upgraded system has been built and has undergone unit and user acceptance testing. Issues and change requests were identified during testing and addressed by the developer. SSMIS has been upgraded and now supports stronger passwords with a go-live date of July 31, 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 was created as part of the SSMIS Upgrade project which went live on July 31, 2015. Now that SSMIS has been upgraded, we will work with FSD to review user roles and access on a regular interval.</p>
9.	<p><b>Application Name:</b> ACCESS</p> <p><b>Responsible Agency:</b> Agency of Human Services (AHS)</p> <p><b>Purpose:</b> 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 style="padding-left: 40px;">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>

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<b>Findings and Recommendations</b>	
b.	<p>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>
c.	<p>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> <p>We recommend that conflicts of interest and concentration of power with any role be evaluated as part of the reorganization.</p>
d.	<p>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>
<b><i>Management Response</i></b>	
a.	<p>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. The State Chief Security Officer has also just hired an additional security specialist that will be available to AHS to assist with the completion of this task.</p>
b.	<p>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 2015 which addresses the issue.</p>

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	<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. DCF launched this tool on January 19, 2016.</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, 2014 audit report as finding 2014-004.

***Management Response***

Responses are embedded in the above table.

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**(3) Findings and Questioned Costs Relating to Federal Awards**

**Finding 2015-011**

**U.S. Department of Agriculture**

**Program Name and CFDA Number**

SNAP Cluster:

Supplemental Nutritional Assistance Program (CFDA #10.551)  
State Administrative Matching Grants for the Supplemental Nutritional Assistance Program  
(CFDA #10.561)

**Program Award Number and Year**

4VT430426	10/1/2013–9/30/2016
4VT400406	10/1/2014–9/30/2015

***Criteria***

State agencies are required to automate their Supplemental Nutritional Assistance Program (SNAP) operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP (7 CFR sections 272.10 and 277.18). This includes (1) processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration; (2) providing an automatic cutoff of participation for households which have not been recertified at the end of their certification period by reapplying and being determined eligible for a new period (7 CFR sections 272.10(b)(1)(iii) and 273.10(f) and (g)); and (3) generating data necessary to meet federal issuance and reconciliation reporting requirements.

***Condition Found***

The Economic Services Division of the State of Vermont’s 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. During our testwork over SNAP participant benefits and participant eligibility as documented within ACCESS, we noted the following:

- A. For 1 of 40 SNAP participants selected for testwork, we were unable to determine if the documentation within the ACCESS system was accurate as the Department was unable to provide the participant’s application for benefits. As a result, we were unable to determine if the eligibility determination was accurate.

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- B. For 2 of 40 SNAP participants selected for testwork, we are unable to verify that the income used in the participant's benefit calculation was accurate as there was no documentation maintained within the participant's file to support the income amount used to determine the participant's eligibility. As a result, we were unable to determine if the eligibility determination was accurate.
- C. For 1 of 40 SNAP participants selected for testwork, we noted that the participant's unearned income was improperly calculated and the amount of unearned income entered into the ACCESS system was inaccurate. As a result, the participant received an overpayment in benefits for the month selected for testwork of \$27.

#### *Cause*

The cause of the condition found was primarily due to human error in data entering within the ACCESS system, document retention, or errors within the income verification review process.

#### *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 existing quality control 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 is accurate and properly supported with external documentation.

#### *Management's Response and Corrective Action Plan*

The Department agrees with the audit findings describe in Conditions A, B, and C and we believe these are the result of human error. The Department will review its control procedures to improve oversight and reduce errors. Such procedures include:

- Quality Assurance (QA) staff review of high error profile cases which target trends in case processing to assist in building training pointed eligibility determination steps.

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- A primary QA sampling list that looks at households with children and earned and/or unearned income (about 1600 cases). This group comprises the most error prone group of cases and represents about 35% of the 4,500 total caseload. QA does a complete review of 5% to 7% of the total cases for a monthly sample of 200 to 300 cases.
- Tracking of QA Data for accuracy by District caseloads and by District work force. The tracking by caseload helps QA review a higher number of cases in geographic District caseloads that have a higher percentage of incorrect cases and aids in mapping error trends. The tracking by District work force (and individual workers) helps target individualized corrective actions most efficiently.
- Annual 'Refresher Training' provided regionally to all Economic Service eligibility staff and their supervisors with skills to better understand rules and processes to better manage their work. Recent trainings have focused on our error prone elements; the refresher training that will be delivered during March and April, 2016 will focus on workload management and documentation practices to emphasize complete and accurate case documentation, to support eligibility decisions.
- Monthly supervisory case reviews (SCRs) completed by the Supervisors of eligibility workers. This entails a comprehensive case review including the review of recorded telephone interactions, as applicable. The results of the SCRs are discussed with the worker, feedback is provided and the data is used to build annual performance evaluations.
- Statewide Supervisor meetings that include agendas which cover overview of recent errors and error trends. The Supervisors bring this information back to staff meetings and local trainings. These meetings are scheduled every other month year-round. The minutes of the meetings are posted on the ESD Intranet.

#### ***Scheduled Completion Date of Corrective Action Plan***

Annual Refresher Training – To be held during March and April 2016  
Review of all other procedures by - June 30, 2016

#### ***Contacts for Corrective Action Plan***

Patricia Duda, Director, Food and Nutrition Programs, (802) 769-6439  
Rob Roberts, AHS Audit Chief, (802) 241-0446

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**Finding 2015-012**

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**

2014IN109844	7/1/13–9/30/14
2014IN109744	7/1/13–9/30/14
2015IN109844	7/1/14–9/30/15
2015IN109744	7/1/14–9/30/15

***Criteria***

A pass-through entity must comply with the following requirements:

1. 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.
2. Clearly identify to the subrecipient the award as a subaward at the time of subaward (or subsequent subaward modification).
3. Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes and complies with the terms and conditions of the subaward.
4. 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, 210.19(a)(4), 220.8(j), 220.8(o)(9), and 220.13(f) (NLP and SBP); 7 CFR section 215.11 (SMP); and 7 CFR section 225.7 (SFSP). As part of this process, the following reviews are required to be performed:
  - a. Administrative Reviews: An administrative review is the comprehensive on-site evaluation of a SFA operating the NSLP/SBP. Every SFA must receive an administrative review during each review cycle.

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- 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. Follow-up reviews are not required for State agencies opting to use the new administrative review procedures. However, for those State agencies continuing to use CRE procedures, follow-up reviews are required as outlined in 7 CFR section 210.18(i).
  - c. **Additional Administrative Reviews (AAR):** State agencies are required to make AARs of selected local educational agencies that have a demonstrated level of, or are at high risk for, administrative error. AARs are in addition to regular cyclical administrative reviews.
5. In addition to the subrecipient monitoring requirements above, State agencies administering the NSLP and SBP are required to conduct certification activity. The objective of such activity is to ensure that SFAs are complying with the updated nutritional standards mandated by Section 201 of the Hunger Free Kids Act (HHFKA). Before providing the performance-based reimbursement (currently 6 cents per lunch served) to SFAs, a State agency must certify that SFAs can demonstrate that they are serving school meals that meet the updated nutritional standards. SFAs have three options to demonstrate compliance. Options 1 and 2 entail State agency desk reviews of documentation submitted by SFAs. Option 1 documentation includes menus and nutrient analysis, while option 2 documentation consists of menus and a simplified nutrient analysis. For option 3, SFAs can be certified over the course of a regular State agency-conducted administrative review, if the State offers that option. This type of review is required only one time per SFA (7 CFR section 210.7(d)).

#### ***Condition Found***

During our testwork over the subrecipient monitoring process utilized by the Vermont Agency of Education (the Agency), we noted the following:

#### ***Application Reviews***

During our testwork over the Agency's process to review applications to determine eligibility for SFAS 3, we noted the following:

- A. For 2 of 40 subrecipients selected for testwork, the Agency did not collect all of the forms the Agency requires to be submitted on the program application from the subrecipient. The subrecipient indicated in the application that they would not be using the notification of eligibility determination as provided by the Agency for the subrecipient to use. If this form is not going to be used by the subrecipient, the application indicates what information needs to be sent in to the Agency as part of the approval process, and in both cases, this information was not submitted by the subrecipient. It was unclear as to why the forms were missing or whether the Agency had followed up on the missing information.
- B. For 1 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

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program. It was unclear as to whether the Agency followed up on the inconsistent information contained within the program application.

- C. For 10 of 25 subrecipients selected for testwork, the SFA had completed information indicating they were a Residential Child Care Institution (RCCI); however, the top of the program application indicated they were a public/private school. It was unclear if the Agency followed up on the inconsistencies.
- D. For 9 of 25 subrecipients selected for testwork, the approval date for the supervisory union was missing. It did not appear that the Agency followed up on the missing information.

#### *Award Identification*

During our testwork over award identification, we noted that application completed by all 25 subrecipients only included information related CFDA #10.555, National School Lunch Program. The information related to the other programs included within the Child Nutrition Cluster, as well as the name of the federal awarding agency, were not included within the application.

#### *During the Award Monitoring*

During our testwork over subrecipient monitoring, we noted the following regarding the Agency's program monitoring visits:

- E. For 3 of 7 monitoring reviews selected for testwork, the Agency issued their letter of findings later than the required 30 day timeframe required by federal regulations.
- F. For 4 of 7 monitoring reviews selected for testwork, the Agency has not issued their letter of findings. The time is well beyond the 30 day timeframe required by federal regulations.
- G. Upon completion of the administrative review, the Agency leaves draft findings with the SFA. For all 7 monitoring reviews selected for testwork, we noted that the SFA had submitted some follow-up documentation related to the draft findings however there was no evidence that the information had been reviewed by the Agency or if the draft findings had been resolved.
- H. For 3 of 7 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.
- I. For 1 of 7 reviews, the Agency determined through their administrative review that a fiscal action was required as a result of incorrect claim calculations noted as part of the Agency's review over reimbursable meals served to eligible students. The Agency has not performed this fiscal action and did not make a subsequent adjustment to a future meal reimbursement to the subrecipient. For another 1 of 7 reviews, the administrative review documentation did not include the required calculation to determine if a fiscal action was required to be taken by the Agency.

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- J. For 1 of 7 monitoring reviews selected for testwork, the Agency reviewed the SFA's processes and procedures for ensuring compliance with paid lunch equity and determined that the SFA should have increased its lunch prices. While this determination was made, the Agency did not perform any procedures to ensure that the SFA had corrected the matter.

*Review of A-133 Audit Reports*

For 1 of 25 subrecipients selected for testwork, the Agency documented that it had received the subrecipient's annual A-133 audit report but was unable to locate it. As a result, we were unable to verify that the A-133 audit report had been obtained and reviewed as required by federal regulations.

Similar findings were noted as part of the June 30, 2014 single audit and were reported as findings 2014-006 and 2014-007.

*Cause*

The cause of the condition found is primarily due to insufficient procedures related to the entire monitoring process over subrecipients, including the review and approval of applications, notification of federal funding awarded, and the documentation and completion of during the award monitoring procedures.

*Effect*

The effect of the condition found is that the Agency may not perform the required follow-up actions and obtain all pertinent information from the subrecipient as part of the application process. In addition, instances of noncompliance identified through its monitoring process may not be communicated timely, 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 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. In addition, 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.

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#### *Management's Response and Corrective Action Plan*

##### **1. APPLICATION REVIEWS:**

For the 2016-2017 school year, all applications will be more carefully reviewed and approved. The new VT-CNP on-line system will require schools to scan and upload any required attachments. This will help to make them more compliant and have the documents readily available for each consultant to review, approve and keep on file. Training for these new requirements will take place prior to commencement of the new school year.

Greater attention to detail by the consultants upon review and approval of the agreements and applications will be required for school year 2016-2017.

For the 2015-2016 School Year, each SFA had to submit a new agreement and application for their sites participating in Child Nutrition Programs in order to update the federal requirements due to regulation and program changes. As part of this process, each school/SFA had to provide copies of the documents that they were using for applications, cover letters, etc. We will have the documents currently used by the SFAs in the files for the 2015-2016 school year.

For the 2016-2017 School Year, the SFAs will be advised that they must submit a copy of their documents with their applications if they are not using the Agency of Education, Child Nutrition Program's forms. These will be attached to their online submissions.

Consultants will receive a training session on reviewing and approving online applications and agreements as we implement the new online system. All staff will be advised to more clearly review the documentation submitted as they review and approve the online materials.

##### **2. AWARD IDENTIFICATION:**

The new online system does include the correct CFDA number for each program in the area of its application in the system.

##### **3. AWARD MONITORING:**

The change in the new Administrative Review process as well as the fine tuning and adjustments that USDA makes each year has been a challenge to implement and complete for Child Nutrition Programs. In addition, several staff changes in the last 3 years have made implementation even more challenging. The new, more robust review that must be completed is requiring more staff time to fully implement and complete than is currently available. It takes approximately 2 weeks for 2.25 FTEs to complete one complete monitoring event/administrative review. Vermont currently conducts an average of 30 administrative reviews each year which take place between November 1 and May 15<sup>th</sup>.

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We are working with another State (New Hampshire) to review their process to determine if the review can be more streamlined and completed more efficiently. The proposed change in the timing of the review schedule in the Child Nutrition Reauthorization bill from 3 to 5 years will alleviate some of the challenges with the monitoring process and enable the program to retain qualified staff to conduct the required monitoring.

We have implemented a checklist to ensure all materials are in the folder and are complete when the review is closed. In the monitoring log for 2015-2016 there are reminders that are put in the reviewer calendars to check the report writing, follow up and closure process. We continue to determine if changes may be made to improve and make the process more efficient.

We are developing a written process for the Monitoring of School Meals programs that will be in place for the 2016-2017 school year. There will be a training of review staff which will include the presentation of the new process and procedures in October 2016.

#### **4. REVIEW OF A-133 AUDIT REPORTS**

The school finance area collects and reviews each sub-recipient's audit report. Child Nutrition Programs division is contacted only in the event that a finding is related to the federal nutrition programs. We will be creating a shared email account for the collection of audit reports which will be used to collect the FY2016 audits. This shared account will be available to other staff if an employee leaves employment.

#### ***Scheduled Completion Date of Corrective Action Plan***

1. **APPLICATION REVIEWS:** Staff training will begin on March 21, 2016 and will be reviewed again in late July of 2016. SFAs will be notified of new requirements no later than June 2016.
2. **AWARD IDENTIFICATION:** April 2016
3. **AWARD MONITORING:** Training will take place in October 2016
4. **A-133 AUDIT REPORTS:** In place for receipt of the FY2016 Single Audit reports.

#### ***Contact for Corrective Action Plan***

Laurie Colgan, Assistant Director, GSM (802) 479-1187

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**Finding 2015-013**

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**

2014IN109844	7/1/13–9/30/14
2014IN109744	7/1/13–9/30/14
2015IN109844	7/1/14–9/30/15
2015IN109744	7/1/14–9/30/15

***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 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 required match to SFA XYZ. State match payments are reported like all other school food service account funds in their annual financial report as nonprofit food service account revenues. During our testwork, we were unable to reconcile the amounts for 24 of the 25 selected for testwork reported to the amounts sent to them by the Agency.

A similar finding was noted as part of the June 30, 2014 single audit and was reported as finding 2014-009.

***Cause***

The cause of the condition found is that the Agency does not review the matching amounts the School Food Authority reports in their annual financial report to verify they agree with the amounts sent to them.

***Effect***

The effect of the condition found is that the Agency may not have accurate financial reporting of the matching revenue and expenditures.

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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***

Not determinable.

***Recommendation***

We recommend that 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***

As part of the training process for the new CNP-VT online application and claiming system, staff will be provided with the amounts of State match paid to each SFA/SU so that they may confirm that the amount deposited in the non-profit food service account is correctly reported on the year-end financial statement. This training will be conducted beginning on March 21, 2016 and will also be reviewed again during July 2016 when staff are trained to review and approve the annual renewals and documents submitted online. The supervisor will also spot check the financial reports to ensure that the information has been correctly entered.

Once the 2016-2017 USDA forms are completed, we will add a question in the Resource Management section of the review form to ask where the State Match funds are deposited and what they are used for to ensure that they are used for allowable purposes.

***Scheduled Completion Date of Corrective Action Plan***

October 2016

***Contact for Corrective Action Plan***

Laurie Colgan, Assistant Director, GSM, (802) 479-1187

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**Finding 2015-014**

U.S. Department of Housing and Urban Development

**Program Name and CFDA Number**

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

**Program Award Number and Year**

B-12-DT-50-0001            4/23/2011–09/30/2017

***Criteria***

A primary pass-through entity is required to perform during the award monitoring over 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***

As part of the Vermont Agency of Commerce and Community Development (the Agency) process to approve costs for reimbursement to its subrecipients, the Agency requires the subrecipient to submit documentation such as invoices paid under the project, so that the Agency can review to ensure that the costs incurred under the project are allowable under the subrecipient grant agreement. During our testwork over subrecipient monitoring over allowable costs incurred by the subrecipient, we noted that for 2 of 15 payments selected for testwork, the only documentation obtained by the Agency from the subrecipient was an Excel® spreadsheet. No other documentation normally obtained, such as invoices, was included as part of the request for reimbursement. No other fiscal monitoring procedures appeared to have been performed by the Agency.

***Cause***

The cause of the condition found is primarily due to the Agency using an alternative process other than its standard grant issuance process to enter into this grant agreement. The Agency used an RFP process for this award and then entered into a traditional grant award document that required the subrecipient to submit all the traditional grant documents. Per review of the grant agreement entered into with the subrecipient, there appears to be two conflicting payment provision sections. One section requires that a monthly status report be submitted to request reimbursement under the grant. The other section required supporting documentation for all requests for reimbursement. Due to these conflicting provisions, only an Excel spreadsheet was submitted as documentation to support the request for reimbursement.

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***Effect***

The effect of the condition found is that the Agency could reimburse costs to the subrecipient that are not allowable.

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

***Questioned Costs***

Not determinable.

***Recommendation***

We recommend that the Agency review its existing procedures for entering into grant agreements and reviewing requests for reimbursement to ensure that sufficient supporting documentation is obtained from all grantees and that fiscal monitoring procedures are consistently performed for all subrecipient grants.

***Management's Response and Corrective Action Plan***

The Community Development Block Grant - Disaster Recovery program allows for a broader range of subrecipients than the regular Community Development Block Grant program. In the regular CDBG program, municipalities are the only acceptable subrecipients. To make the best use of our Disaster Recovery funding, we developed an RFP process to identify a consultant that could develop plans for the revitalization of communities that were harmed by Tropical Storm Irene. The entity selected for this project developed a detailed breakdown of the proposed project with specific deliverables and associated payment amounts. This was the basis we used for progress payments to be made to the subrecipient. Agency staff were actively involved with the subrecipient every step of the way: attending public meetings, reviewing reports, step-by-step guidance and directive conducting the municipal environmental reviews by the Agency Environmental Officer, and workproducts. Although not labelled monitoring, this involvement was more effective than reporting or site visits to give us confidence that the subrecipient was completing the performance goals of the project.

Although the procurement method and the basis of compensation for this project differed from our typical grants, we used a grant form to memorialize the agreement. This decision was made specifically so we could track the project in HUD's online grants management system via the Agency's online Grants Management system. This allowed us to track payments on this project along with all of our other Disaster Recovery projects on a consistent basis and prepare the quarterly reports required by HUD in a timely manner.

Regarding Corrective Action, we will ensure that in the future, we only use a grant form of agreement for projects that are being administered as grants. We do not expect to have any further reason or opportunity to be contracting with private entities, as opposed to our typical municipal grantees. In the unlikely event that such an opportunity arises, and if we have reason to implement that subaward in the form of a grant due to reporting constraints or the like, we will clearly identify, in the grant agreement, that it is a contract being put into grant format for ease of reporting and requisitioning funds only.

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*Scheduled Completion Date of Corrective Action Plan*

Completed.

*Contact for Corrective Action Plan*

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

**STATE OF VERMONT**

Schedule of Findings and Questioned Costs

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**Finding 2015-015**

U.S. Department of Housing and Urban Development

**Program Name and CFDA Number**

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

**Program Award Number and Year**

B-12-DT-50-0001            4/23/2011–09/30/2017

*Criteria*

Performance and Evaluation Report (PER) (OMB No. 2506-0085) – This report is due from each State Community Development Block Grant (CDBG) grantee within 90 days after the close of its program year. Submission of the PER is done using the instructions in Notice CPD-11-03 (until HUD advises State CDBG grantees to submit their PERs through the electronic Consolidated Plan template). Among other factors, the report is to include a description of the use of funds during the program year and an assessment of the grantee's use for the priorities and objectives identified in its plan. The auditor is expected to test only the financial data in this report (24 CFR sections 91.520 (a) and (c)).

*Condition Found*

During our testwork over federal reporting, we noted that for 1 of 10 subrecipients selected for testwork, the grant agreement that was entered into between the Vermont Agency of Commerce and Community Development (the Agency) and the subrecipient was initially for \$575,000, all of which was allocated with 2011 federal funds and was reported as such within the PER. Subsequent to the subrecipient grant being entered into, the grant agreement was amended to increase the grant by \$49,000, which was allocated using program income funds. The additional amount awarded using program income funds should have been included in the program income column of the PER, but was excluded during the preparation of the report. As amounts expended as program income are considered to be federal expenditures under this program under the federal award year in which the program income is earned under the PER guidelines established by HUD, it appears that this information should have been included in the PER.

*Cause*

The cause of the condition found is primarily due to an oversight during the preparation and review of the schedules reported in the PER.

*Effect*

The effect of the condition found is that the Agency reported inaccurate information in the PER.

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

***Questioned Costs***

None.

***Recommendation***

We recommend that the Agency review its existing procedures for preparing the PER and implement controls to independently review all sections of the PER prior to submission to ensure that the PER is accurate and has properly captured and reported award obligations.

***Management's Response and Corrective Action Plan***

The official method for reporting to HUD on the use of funds during the program year is the entry of funding data into the HUD's Consolidated Annual Performance and Evaluation Report (CAPER). The CAPER is what HUD reviews and relies upon for each Program Year Grant. The \$49,000 enhancement referenced in this Finding was Program Income and was properly recorded in the reports that HUD relies upon from the Integrated Disbursement and Information System (IDIS).

As noted by the auditors, the \$49,000 enhancement to one award was unintentionally omitted from the 2014 spreadsheet that details the grant awards made under 2014 Program Year Grant. These spreadsheets by Program Year are merely supplementary documents to the official data for the CAPER. It is not required by HUD. Commencing with Program Year 2015, we will not be providing this supplementary document, as HUD has clarified that all CAPER reporting will be developed only in the IDIS. As this document will no longer be prepared or provided, there will be no future opportunity to make this type of unintentional omission.

***Scheduled Completion Date of Corrective Action Plan***

Completed.

***Contact for Corrective Action Plan***

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

**STATE OF VERMONT**

Schedule of Findings and Questioned Costs

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**Finding 2015-016**

U.S. Department of Labor

**Program Name and CFDA Number**

Unemployment Insurance (CFDA #17.225)

**Program Award Number and Year**

UI-26567-15-55-A-50	10/1/14–12/31/17
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

***Criteria***

*Allowability*

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.

*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 Vermont Department of Labor (the Department) utilizes three primary computer systems—FARS, VABS, and CATS—to process activity related to the program.

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- 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'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 UI Program. 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.
- 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.

During the year ending June 30, 2012, a test of design related to the IT general control environment of the above 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 UI could not be performed. During the period ending June 30, 2015, the Department has begun to take action on some of those deficiencies; however, many of 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 UI program contained within the systems and we are unable to conclude that there are adequate controls in place surrounding the IT system utilized related to the allocation of costs, the determination of eligibility, the calculation of unemployment benefits, or the calculation of the employer experience rates. As such, we were unable to rely on IT controls due to these control deficiencies.

A similar finding was noted as part of the June 30, 2014 single audit and was reported as finding 2014-014.

#### *Cause*

The cause of the condition found is that the Department has not taken action timely 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. Additionally, errors in the eligibility and employer tax experience processes may not

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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 key 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. In addition, the Department should review the application controls in the FARS, VABS and CATS systems that are instrumental to helping the Department maintain compliance and ensure that the controls are functioning properly.

#### ***Management's Response and Corrective Action Plan***

VDOL has developed a VABS/FARS/CATS specific security policy named Policy 21 - "Security Policies for the Labor Enterprise Computing (LEC) System" which is based upon existing State of Vermont DII policy. This policy was implemented on February 25, 2015. VDOL Policy 22 "Policy for Change and Configuration Management" was released on February 25, 2015 and was fully implemented by March 31, 2015. 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 non-employees 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.

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. In November 2015, we updated a server and purchased a second for mirroring purposes. The main server is now installed and in production. The mirror server has been created and we are testing it at our central location in Montpelier. Once it has passed the testing it will be moved to our Burlington site and we will contract with BerryDunn by Fall 2016 for final testing and implementation.

Along with, and in addition to, the quarterly review of user access, VDOL will immediately implement a quarterly review of application controls to assure functionality and compliance.

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*Scheduled Completion Date of Corrective Action Plan*

Fall of 2016

*Contact for Corrective Action Plan*

Tom Tomasi, VDOL Director of Administration, (802) 828-4376

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**Finding 2015-017**

U.S. Department of Labor

**Program Name and CFDA Number**

Unemployment Insurance (CFDA #17.225)

**Program Award Number and Award Year**

UI-26567-15-55-A-50	10/1/14–12/31/17
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

***Criteria***

*Eligibility for Individuals*

Regular Unemployment Compensation Program – Under State UC laws, a worker’s benefit rights depend on the amount of the worker’s wages and/or weeks of work in covered employment in a “base period.” While most states define the base period as the first 4 of the last 5 completed calendar quarters prior to the filing of the claim, other base periods may be used. To qualify for benefits, a claimant must have earned a certain amount of wages, or have worked a certain number of weeks or calendar quarters within the base period, or meet some combination of wage and employment requirements. Some states require a waiting period of one week of total or partial unemployment before UC is payable. A “waiting period” is a noncompensable period of unemployment in which the worker was otherwise eligible for benefits.

To be eligible to receive UC, all states provide that a claimant must have been involuntarily separated from suitable work, i.e., not because of such acts as leaving voluntarily without good cause, or discharge for misconduct connected with work. After separation, he or she must be able and available for work, in the labor force, legally authorized to work in the U.S., and not have refused an offer of suitable work (20 CFR section 603.2). Pub. L. No. 112-96 requires work search as a condition of eligibility after the end of the first session of a State’s legislature which begins after February 22, 2012.

***Condition Found***

The Vermont Department of Labor (the Department) is responsible for determining whether claimants meet eligibility requirements outlined in State law to receive unemployment compensation benefits. One of the eligibility requirements is that claimants complete mandatory reemployment services as directed. Reemployment services are designed to increase claimants’ chances of obtaining a job before they exhaust their benefits. Claimants with the highest probability of exhausting benefits are selected for participation. There are currently two services offered, Reemployment Eligibility Assessments (REA) and Reemployment Services (RES). Attendance and completion of either REA or RES is documented by local resource center staff in the Vermont Job Link workforce development system. Claimants who do not complete the services

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are considered “failed to report,” and their unemployment benefits are denied until the service is rescheduled and completed.

During our testwork over eligibility we selected 40 claimants, of which 17 were required to complete mandatory reemployment services. In 1 instance we noted that the electronic enrollment file for the claimant was listed as “failed to report” but benefits were not stopped. Upon review of additional supporting documentation, we were able to determine that the claimant had completed the reemployment service requirements even though it was not documented within the system. As a result of the error we extended our sample to review all claimants selected for RES within the same week as the claimant in our initial sample. There were 23 claimants in this population and in 5 instances the Department was unable to validate whether these individuals attended RES and in all cases benefits had not been suspended.

Due to the number of errors, the Department performed further procedures to determine the extent of unsubstantiated claims and potential unemployment benefit overpayments in fiscal 2015. The Department reviewed all 1,307 claimants selected for RES during the state fiscal year and discovered 366 claimants had potential issues. The Department distributed the list of 366 claimants, sorted by office, to all of the regional offices with a data validation form and instructions to find all the hard copy case files and paperwork to substantiate that the required reemployment services had been completed. All 366 data validation forms were received back from the regional offices and the Department was able to validate the files on 252 claimants, which left 114 unsubstantiated claimant files.

#### *Cause*

The cause of the condition found is a lack of review over regional staff performing data entry in the Vermont Job Link workforce development system.

#### *Effect*

The effect of the condition found is that claimant eligibility is not properly documented, and the overpayment of unemployment benefits to ineligible claimants is not identified by the Department.

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

#### *Questioned Costs*

\$401,908 represents the amount of claims paid throughout fiscal 2015 for the 114 claimants required to attend reemployment services prior to benefits being received.

#### *Recommendation*

We recommend that the Department review its procedures related to RES enrollment and data entry by regional staff and put into place review controls to ensure RES enrollment is properly and timely documented and communicated to the UI Division.

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#### *Management's Response and Corrective Action Plan*

The Vermont Department of Labor, in administering the Reemployment Service (RES) program with UI claimants, was required to ensure that each UI claimant was scheduled for and received "Reemployment Service". RES is intended to reduce a UI claimant's duration on UI by engaging the claimant - early in his/her unemployment status - in job search assistance and work search activities. As a result of VDOL staff error, some UI claimants were not scheduled for RES program services. The Department records reveal 1,307 RES claimants, of which 366 were identified for further review; and 252 of those were validated as properly processed and served. The Department was unable to substantiate (through case file review, case notes, database entries, etc.) RES services to 114 UI claimants. We cannot determine if the claimant was, or was not, scheduled and/or seen in the AJC for RES services. There is no indication that these 114 claimants engaged in any type of misrepresentation or fraud in relation to their UI claims and status.

VDOL Workforce Development division has, as recommended, reviewed and modified the RES enrollment procedures and controls. Regional Managers and staff conducting the RES program have the tools needed to ensure that RES enrollments are appropriate, timely, properly documented and communicated to VDOL's UI division.

The Department has developed an RES supplemental protocol that directs staff members responsible for RES to check in and validate with the Regional Manager that the RES list has been received. At the end of each week, the staff member will report to the Regional Manager on what activities and/or actions have taken place for each participant scheduled for RES. RES participant files will reflect notes and entries of activities that took place along with F-87 forms that have been forwarded to the UI Division. VDOL Workforce Development division has also implemented a weekly RES activities tracking sheet to be used in all of our regional offices. The tracking sheet is reviewed at the end of every week by the Regional Managers to insure that all RES activities meet or exceed policy expectations. These records will allow Regional Managers to validate that RES activities are accurate. The RES supplemental protocol was put into place effective November 20, 2015.

In addition, VDOL Workforce Development reviews the RES program activities for accuracy and policy compliance. As of the time of this writing VDOL Workforce Development Central Office has gone through each and every participant account to substantiate the actions taken. VDOL Workforce Development generated a list of all RES participants, distributed this list sorted by office to all of the regional managers with the new RES Validation Form and instructions to review all the hard copy case files and paperwork to substantiate the activity taken with the participant. The VDOL Workforce Development Central Office's program manager continues to review RES participant/claimant files for accuracy; meaning that each and every participant/claimant account has been reviewed and validated. Any case files identified with issues during the process were dealt with immediately and any material errors were corrected.

When we are unable to substantiate the RES service in these cases, it is considered Department / Agency Error. Vermont's employer-funded UI Trust Fund, with a current positive balance of approximately \$250M will be required to absorb the \$401,908 dollar costs of the Department / Agency Error, as is the case with any other issue of Department / Agency Error. There will be no federal funds involved in covering the costs of the unsubstantiated RES cases.

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*Scheduled Completion Date of Corrective Action Plan*

The RES supplemental protocol was put into place effective November 20, 2015.

*Contact for Corrective Action Plan*

Rose Lucenti, Workforce Development Director, 802-828-4151

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**Finding 2015-018**

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 Grants (CFDA #17.278)

**Program Award Number and Year**

AA-26812-15-55-A-50	4/1/15–6/30/18
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

***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 above 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 UI could not be performed. During the period ending June 30, 2015, the Department has begun to take action on some of those deficiencies; however, many of 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 systems and we are unable to conclude that there are

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adequate controls in place surrounding the IT system utilized related to the allocation of costs, the determination of eligibility, the calculation of unemployment benefits, or the calculation of the employer experience rates. As such, we were unable to rely on IT controls due to these control deficiencies.

A similar finding was noted as part of the June 30, 2014 single audit and was reported as finding 2014-015.

#### *Cause*

The cause of the condition found is that the Department has not taken action timely 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 significant deficiency 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 the application controls in the FARS, VABS and CATS systems that are instrumental to helping the Department maintain compliance and ensure that the controls are functioning properly.

#### *Management's Response and Corrective Action Plan*

VDOL has developed a VABS/FARS/CATS specific security policy named Policy 21 - "Security Policies for the Labor Enterprise Computing (LEC) System" which is based upon existing State of Vermont DII policy. This policy was implemented on February 25, 2015. VDOL Policy 22 "Policy for Change and Configuration Management" was released on February 25, 2015 and was fully implemented by March 31, 2015. 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 non-employees are escorted. Key codes to the key pad door are restricted

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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.

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. In November 2015, we updated a server and purchased a second for mirroring purposes. The main server is now installed and in production. The mirror server has been created and we are testing it at our central location in Montpelier. Once it has passed the testing it will be moved to our Burlington site and we will contract with BerryDunn by Fall 2016 for final testing and implementation.

VDOL annually submits its Cost Allocation Plan to the US Department of Labor, Division of Cost Determination for approval. The annual submittal is looked at by the Federal Government to verify the methodology and to make sure that all costs are being allocated to all programs (federal and non-federal alike) correctly.

***Scheduled Completion Date of Corrective Action Plan***

Fall of 2016

***Contact for Corrective Action Plan***

Tom Tomasi, VDOL Director of Administration, (802) 828-4376

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**Finding 2015-019**

U.S. Department of Transportation

**Program Name and CFDA Number**

Airport Improvement Program (CFDA #20.106)

**Program Award Number and Year**

3-50-0003-007-2012	3-50-0011-009-2014
3-50-000-012-2012	3-50-0014-044-2014
3-50-0015-040-2013	3-50-0003-009-2014
3-50-0015-040-2013	
3-50-0003-008-2013	
3-50-0016-010-2014	

***Criteria***

The SF-425, *Federal Financial Report*, is required to be filed on an annual basis, 90 calendar days following the end of the federal fiscal year.

***Condition Found***

During our testwork over the federal reporting process for SF-425 federal financial reports (federal reports) filed for the reporting period October 1, 2013 to September 30, 2014, we noted the following:

- A. 1 of 14 reports selected for testwork did not appear to have been filed.
- B. 7 of the 14 federal reports that were filed lacked a reviewer's signature and we were unable to verify if the federal reports had been reviewed prior to submission. Of these reports, 4 of 7 reports contained expenditures that did not agree to the STARS system, the Agency of Transportation contract accounting system, and appeared to have under reported expenditures for the reporting period.

***Cause***

The cause of the condition found is primarily due to lack of adequate internal control procedures over the federal SF-425 reporting process. In addition, employee turnover within the Agency has led to an insufficient supervisory review of the SF-425 federal financial status reports and in some cases failure to submit. In addition, it appeared that the Agency 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.

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***Effect***

The effect of the condition found is that the Agency may not have submitted accurate SF-425 federal financial status reports, or may have failed to submit SF-425 federal financial status reports entirely.

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 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 is maintained with a copy of the final report that is submitted to the DOT.

***Management's Response and Corrective Action Plan***

We agree that SF-425 federal financial status reports and its supporting documentation are important to the fiscal overview of active grants and should be reviewed, signed, filed with FAA and maintained proper documentation on site.

To comply with AIP guidance and 2 CFR §200.327 on Financial Reporting, the Agency has revised internal procedures to address the conditions found.

***Scheduled Completion Date of Corrective Action Plan***

Completed - February 25, 2016

***Contact for Corrective Action Plan***

Emily Mascitti, Financial Manager, (802) 828-2639

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**Finding 2015-020**

U.S. Department of Transportation

**Program Name and CFDA Number**

Highway Planning and Construction Cluster:

Highway Planning and Construction (CFDA #20.205)  
Recreational Trails Program (CFDA #20.219)

**Program Award Number and Year**

N 4520.228 HCFB-1      10/1/2013–9/30/2014  
N 4520.235 HCFB-10    10/1/2014–9/30/2015

**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.

**Condition Found**

During our testwork over the procurement process, we noted the following:

- A. For 1 of 40 contracts selected for testwork, the maximum contract amount noted on the AA14 Form used to approve state contracts was greater than the maximum contract amount described in the contract. We noted that this error had been identified by the Vermont Agency of Transportation (the Agency); however, it was identified after the contract had been selected as part of the audit sample. It does not appear that the Agency took any steps to correct the error by modifying the approved AA14 Form.
- B. For 1 of 40 contracts selected for testwork, we noted that the contract was for marketing services. Per review of Administrative Bulletin 3.5, the State of Vermont’s procurement policy, these contracts must be approved by the Chief Marketing Officer (CMO). We noted that the contract’s AA14 Form did not have CMO approval. While the Agency does have a separate contracting plan that modifies certain requirements of Administrative Bulletin 3.5, we did not note any exemptions to CMO approval expressed within the Agency’s contracting plan.

**Cause**

The cause of the condition found is due to a misunderstanding of the requirements of Administrative Bulletin 3.5 concerning required approvals and the lack of controls to ensure the AA14 Form is completely and accurately prepared and reviewed.

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***Effect***

The effect of the condition found is that the Agency may enter into contracts that do not comply with the provisions of Administrative Bulletin 3.5 and thus may not be allowable.

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 review its existing procedures and internal controls to ensure that the Forms used for contract review and approval (Form AA14) are completely and accurately prepared and that all required approvals are obtained prior to executing a contract as outlined under Administrative Bulletin 3.5.

***Management's Response and Corrective Action Plan***

Subsequent to the dates of the AA-14s sampled, Contract Administration began checking the AA-14 against the contract prior to entering the contract and payment information into the State Transportation Accounting Reporting System (STARS), to catch discrepancies between the executed contract and the AA-14. The contract cited under "Condition Found, Sub-Item A," was corrected in the STARS system and initialed in the paper file immediately upon discovery and a subsequent AA-14 accompanying a pending amendment reflects the correct maximum limiting amount. In addition, Contract Administration has implemented additional front-end checks to the accuracy of the AA-14s, including all required signatures in accordance with Bulletin 3.5. (to address oversights such as indicated in "Condition Found, sub-item B.") The AA-14 for the original contract cited under Sub-Item B did have the required Chief Marketing Officer (CMO) approval. However, a subsequent amendment omitted the required approval. Attention to required approvals is part of Contract Administration's stringent checks.

To provide a further safeguard against future error, Contract Administration is providing notification to Project Managers to check the fully-executed contract prior to recommending amendments, rather than relying on the internal AA-14 form. Careful review of AA-14s at the front end of the Procurement process is already implemented and additional staff in Contract Administration has contributed to the Section's diligence. Project Managers are being notified to check any recommended changes against the legal document, rather than the internal. However, we are confident that Contract Administration's increased attention at the front-end of procurement will eliminate most errors.

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*Scheduled Completion Date of Corrective Action Plan*

The Corrective Action Plan is considered complete.

*Contact for Corrective Action Plan*

Denise Gumper, Contract Administration Chief, (802) 828-2089

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**Finding 2015-021**

U.S. Department of Transportation

**Program Name and CFDA Number**

Highway Planning and Construction Cluster:

Highway Planning and Construction (Federal-Aid Highway Program) (CFDA #20.205)  
Recreational Trails Program (CFDA #20.219)

**Program Award Number and Year**

N 4520.228 HCFB-1	10/1/2013–9/30/2014
N 4520.235 HCFB-10	10/1/2014–9/30/2015

***Criteria***

A State Department of Transportation (DOT) must have a quality assurance (QA) program, approved by the Federal Highway Administration, for construction projects on the National Highway System to ensure that materials and workmanship conform to approved plans and specifications. Verification sampling must be performed by qualified testing personnel employed by the State DOT, or by its designated agent, excluding the contractor (23 CFR sections 637.201, 637.205, and 637.207).

***Condition Found***

During our testwork over the Agency of Transportation's (the Agency) quality assurance process, we noted that for 6 of 8 accepted projects selected for testwork, the "Approved Materials Memo" (also known as a 23 CFR 637 Certificate) have not been completed even though the project itself has been completed as required by the approved quality control plan. The Approved Materials Memo documents that the materials used on the project comply with approved plans and specifications. Any material exceptions are also noted within this memo. We noted that while the Agency's quality control plan does not specify the time frame in which the Approved Materials Memo must be completed, we noted these projects were all completed between July 21, 2014 and June 12, 2015 and, as of our date of testwork in November 2015, the Approved Materials Memo had still not been completed for these projects.

***Cause***

The cause of the condition found is primarily due to the turnover within the Agency.

***Effect***

The effect of the condition found is that projects may not have been subject to the required testing procedures and untimely completion of this final step in the QA process would not be able to identify deficiencies timely.

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

***Questioned Costs***

None.

***Recommendation***

We recommend that the Agency review its existing procedures and controls surrounding the quality assurance process, to ensure that the final approval process related to the QA process is completed in a timely and consistent manner.

***Management's Response and Corrective Action Plan***

The Materials Section was merged with the Construction Section in May of 2014. The Materials Section was without a manager until the position could be filled in late September 2014. Allowing for some time for the new manager to assess the situation, in 2014 and 2015 the timeliness may have suffered.

There are several corrective actions already underway:

1. An update of SiteManager that will correct the report used to generate the materials acceptance requirements for a contract. Investigations revealed that this activity was suspended when an employee retired and the position was not filled. The result was that the contractor and field staff were not provided correct requirements at the beginning of the project, which made making the reconciliation process at the end very difficult and time consuming. The update of SiteManager was completed in February 2016.
2. The creation of the Materials Acceptance Program within the Materials Section. This team is tasked with ensuring SiteManager is current and that each contract is reviewed with the Resident Engineer to establish a materials acceptance plan for each contract. At this time all active contracts have been assigned to a material acceptance liaison and they will be performing bi-weekly visits with Resident Engineers throughout construction to ensure materials are being accepted per the Agency's Quality Assurance Program. This effort will bridge the gap until a new process is deployed in 2017.
3. A complete assessment of the process using Business Process Management techniques. The As-Is documentation is complete, the analysis phase has been performed and the team is poised to begin the design of the new process. The full design, testing and implementation could take 24 months.

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***Scheduled Completion Date of Corrective Action Plan***

1. This action is completed.
2. An interim process is completed and a revised process is anticipated to be in place in 2017.
3. Anticipated to be complete by March, 2019.

***Contact for Corrective Action Plan***

David J. Hoyne P.E., Director of Construction & Materials Bureau, (802) 828-2593

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**Finding 2015-022**

U.S. Environmental Protection Agency

**Program Name and CFDA Number**

Drinking Water State Revolving Fund Cluster:

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

**Program Award Number and Year**

FS-99121813-0	7/01/2013–6/30/2020
FS-99121812-0	10/1/2012–9/30/2019
FS-99121810-0	5/1/2012–5/1/2019
FS-99121811-0	7/01/2011–7/1/2018

***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 2011 and 2012 capitalization grants year 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 2011 capitalization grant year, the base amount of direct costs, for which the indirect costs charged to the grant should be calculated from, was incorrect based on the internal financial status report for the grant. The SF-425 financial status report used a base amount of direct costs of \$4,154,260, while the base amount contained on the internal financial status report was only \$889,043. While the base amount of direct costs was incorrectly reported, the Department did not use this amount to calculate the indirect costs reported on the SF-425 financial status report, but

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instead the indirect costs reported on the SF-425 was calculated using the prior amount of direct costs reported in an earlier reported period.

- For the 2012 capitalization grant year, the base amount of direct costs, for which the indirect costs charged to the grant should be calculated from, was incorrect based on the internal financial status report for the grant resulting in a variance of \$17,758. While there was a reported variance, there did not appear to be any impact on the amount of federal funds drawn. Further, the amount of indirect costs charged to the grant was not the proper amount based on the 33.42% indirect cost rate.

B. The 2011 and 2012 SF-425 reports filed by the Department were prepared and submitted by the same individual with no independent review.

***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 on the SF-425 federal financial status reports.

A similar finding was noted as part of the June 20, 2014 single audit and was reported as finding 2014-017.

***Effect***

The effect of the condition found is that the Department submitted inaccurate 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.

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***Management's Response and Corrective Action Plan***

The corrective action put into place following last year's audit had not been implemented prior to when the SF425 report was reviewed this year. The audit for SFY'14 was completed in December 2014 and the report they reviewed as part of the SFY'15 audit was completed in October of 2014, clearly well before the new procedures were put into place. However, since this report is only completed once per year, it is the only report that could be reviewed by the auditors.

The underlying cause of this finding is due to staff turnover. We are in the process of revising all of our written procedures to ensure they become living documents and will be available to new staff and reduce the risk of this happening again should we experience staff turnover in the future. The procedures will incorporate retention of the ASAP report and a static financial status report to coincide with the SF425. We have also shifted duties within our office to ensure that there is a review of the all reports and draw sheets prior to submittal.

***Scheduled Date of Completion of Corrective Action Plan***

The corrective action plan was implemented in January of 2015 immediately after the December 2014 audit.

***Contact for Corrective Action Plan***

Tracy LaFrance, Financial Director, (802) 498-7074

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**Finding 2015-023**

U.S. Environmental Protection Agency

**Program Name and CFDA Number**

Drinking Water State Revolving Fund Cluster:

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

**Program Award Number and Year**

FS-99121813-0	7/1/2013–6/30/2020
FS-99121812-0	10/1/2012–9/30/2019
FS-99121810-0	5/1/2012–5/1/2019
FS-99121811-0	7/1/2011–7/1/2018

***Criteria***

The State shall establish a separate account, or series of accounts, that is dedicated solely to providing loans and other forms of financial assistance from the Drinking Water State Revolving Fund (DWSRF). All loan repayments (including principal and interest), interest earnings on investments, capitalization grants (except that portion the State intends to use as set-asides), state match, and transfers from the Clean Water State Revolving Fund (CWSRF) must be credited directly to the DWSRF. A state must maintain separate and identifiable accounts for the portion of the capitalization grant to be used for set-aside activities (40 CFR sections 35.3550(f) and (g)).

The State shall maintain internal control over federal programs that provides reasonable assurance that the auditee is managing federal wards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

***Condition Found***

During our testwork over loan repayments, we noted that the following:

- A. Vermont Department of Environmental Conservation (the Department) does not have a sufficient process in place to monitor the timeliness of loan payments on its outstanding loan balances. Currently, the Department's practice for monitoring outstanding loan balances is limited to recording loan payments from bank statements in the amortization schedule which tracks a loan's payment history. The Department does spot check upcoming loan repayments against their tracking spreadsheet; however, this is not done consistently for all repayments and is not documented.
- B. The Department does not have procedures in place to monitor Vermont Economic Development Agency (VEDA), the Department's private drinking water loan administrator, outstanding loan balances or to ensure loan payments are made timely and are for the proper amounts.

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***Cause***

The cause of the condition found is that the Department relies on two third-party service providers for billing, collection, and monitoring project loans. The Department has not reviewed the third-party servicers' processes to assess their adequacy or taken any other steps to support their reliance on the providers.

***Effect***

The effect of the condition found is that the Department does not have proper mechanisms in place to identify those projects that are not making timely payments and may have delinquent balances.

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 a process to monitor all outstanding loan balances to ensure timely payment and that the process is adequately documented.

***Management's Response and Corrective Action Plan***

- A. The Department will be working to revise this process to ensure it is adequate and that it incorporates the functionality of the new software (LGTS), as well as includes a method for documentation that can be used as a control.
- B. During our next regularly scheduled quarterly meeting with the Vermont Economic Development Authority, The Vermont Bond Bank, and Peoples United Bank, we will discuss setting up a process to review and assess their processes and procedures, including their internal controls in order to assure their adequacy related to our programs. Once we complete the assessments, we will develop a consistent process that we will use to monitor all outstanding loan balances and ensure timely payments.

***Scheduled Date of Completion of Corrective Action Plan***

January 1, 2017

***Contact for Corrective Action Plan***

Bryan Redmond, Water Infrastructure Finance Supervisor, (802) 585-4900

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**Finding 2015-024**

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**

H027A140098	7/1/14–9/30/15
H173A140106	7/1/14–9/30/15

***Criteria***

A Local Educational Agency (LEA or subrecipient) must expend, in any particular year, an amount of local funds, or a combination of State and local funds, for the education of children with disabilities that is at least equal, on either an aggregate or per capita basis, to the amount of local funds, or a combination of State and local funds, expended for the purpose by the LEA in the prior fiscal year.

***Condition Found***

The Vermont Agency of Education (the Agency) reviews maintenance of effort for LEAs annually. For 1 of 15 subrecipients selected for testwork, we noted that the incurred state and local expenditures were greater in the prior year than the current year and therefore they did not meet the required maintenance of effort. The Agency had performed their maintenance of effort calculation for the subrecipient as of the grant period-end and at the time found that the subrecipient had met the certain criteria that allowed them to be exempt from compliance with the maintenance of effort requirement. However, the LEA subsequently submitted amended financial information that was not reviewed by the Agency. Based on the revised information submitted by the subrecipient, they no longer met the exemption criteria and therefore did not comply with the maintenance of effort requirement.

***Cause***

The cause of the condition found is primarily the result of insufficient procedures to follow up on new information to ensure maintenance of effort compliance at the subrecipient level.

***Effect***

The effect of the condition found is subrecipients may not be in compliance with federal regulations applicable to maintenance of effort, and the Agency may not be aware or have mechanisms to follow up on such noncompliance.

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

***Questioned Costs***

None.

***Recommendation***

We recommend that the Agency review its existing maintenance of effort procedures and develop controls to ensure that its maintenance of effort calculation be performed again when a LEA submits amended information.

***Management's Response and Corrective Action Plan***

The Agency of Education has added a step to the review of revised Special Education Expenditure Reports to review MOE compliance before the revised report is finalized. This review is conducted by the Special Education Finance Manager. In addition, the Agency of Education has re-reviewed all revised Special Education Expenditure Reports submitted between September 2015 (when the FY15 reports were finalized) and February 2016 (when the review step was added) to verify MOE compliance.

***Scheduled Date of Completion of Corrective Action Plan***

Process revised on February 5, 2016.

***Contact for Corrective Action Plan***

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

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**Finding 2015-025**

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**

H027A140098	7/1/14–09/30/15
H173A140106	7/1/14–09/30/15

***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 purpose 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 related to the Agency’s programmatic monitoring reviews:

- A. For 1 of 14 compliance reviews related to Individualized Education Plan (IEP) reviews conducted by LEAs 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 the compliance review had been completed.
- B. For 1 of 14 compliance reviews related to IEP reviews conducted by the LEA selected for testwork, we noted that the Agency could not locate the close-out letter sent to the subrecipient. As a result, we were unable to conclude that the Agency had properly followed up and resolved any outstanding issues related to the review.
- C. For 4 of 12 compliance reviews selected for testwork, we noted that a letter was sent to the LEAs indicating that a review would be performed. Subsequently, the Agency employee responsible for the completion of the reviews left the Agency. It did not appear that the Agency assigned another employee to perform the reviews and the Agency was unable to locate any documentation to indicate the reviews were performed.

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- D. For 1 of 2 focus monitoring reviews selected for testwork, we noted that while the corrective action plan itself contained a close-out date, not all of the items requiring corrective action appeared to have been completed and a specific close-out date was not identified for those items. In addition, the Department did not appear to have sent a final close-out letter to the subrecipient finalizing the focus monitoring review.

A similar finding was noted as part of the June 30, 2014 single audit and was reported as finding 2014-023.

#### *Cause*

The cause of the condition found is primarily a result of insufficient procedures to ensure that all required documents are completed and retained 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 reviews in a timely manner. In addition, there appears to be insufficient staff to perform the required monitoring reviews.

#### *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 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 or desk review. A supervisory review should be conducted to ensure each file is complete prior to closure. In addition, the Agency should evaluate its existing staffing levels to ensure that there are sufficient resources in place to perform its annual monitoring procedures.

#### *Management's Response and Corrective Action Plan*

- A. It is agreed that the training information on IEP annual reviews and special education triennial evaluations required from this subrecipient could not be located. The district was also unable to produce the documented evidence of the training upon request. A new system to collect the data submitted to the VTAOE, reviewed and maintained by two staff members, has been developed for future use.

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- B. At the request of the subrecipient, AOE reviewed the data submitted from the 2013 Child Count and it was determined that all of the non-compliant dates in regard to triennial re-evaluations for this subrecipient occurred prior to a training held in August 2014 and it was determined another training was unwarranted. However, a follow-up letter documenting this decision should have been issued but was not. The new system to collect the data will be reviewed and maintained by two VTAOE staff to ensure all procedures are completed. AOE will issue this letter to the subrecipient by March 1, 2016.
- C. The staff member referred to in this instance had not left the Agency prior to the completion of this compliance review annual cycle but rather had left at the completion of that cycle. The VTAOE did locate compliance monitoring information pertaining to all four subrecipients as well as two of the four close out letters. Contact will be made with the two subrecipients indicating that the VTAOE could not verify they had received documented close out letters and will issue such letters by March 1, 2016. Moving forward, separate online files for each school district in the compliance monitoring cycle will be maintained and reviewed by the two current special education monitors. There will be one central online location for documentation of the data submitted and feedback from the VTAOE for each of the ten districts in the annual compliance cycle. The lead monitoring team member will be responsible for completing their own documentation as well as monitoring the documentation requirements of their colleagues.
- D. The VTAOE concurs that this monitoring visit did not include a close out letter to the supervisory union at the completion of the individual non-compliance. (In this instance the supervisory union had no triangulated areas for improvement and, therefore, had no additional improvement plan required to be submitted to the VTAOE.) VTAOE has designed a new checklist that the lead facilitator for every visit will be responsible for completing, from the letter informing the district of their selection to the close out letter that informs the district they have completed their required corrections. In addition to the use of this checklist, a letter will be sent to this particular subrecipient to close out their focused monitoring review by March 1, 2016.

#### ***Scheduled Date of Completion of Corrective Action Plan***

- A. Completed: The subrecipient subsequently completed training for this purpose in the 2014 Child Count review which has been submitted to the VTAOE.
- B. Letter issued by March 1, 2016
- C. The new system for documenting district submissions and VTAOE feedback began on November 1, 2015. Close out letters to the two subrecipients, where such documentation could not be confirmed by the VTAOE, will be issued by March 1, 2016.
- D. Checklist: Completed. A close-out letter will be sent to subrecipient by March 1, 2016

#### ***Contact for Corrective Action Plan***

Ernest Wheeler - (802) 479-1252

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**Finding 2015-026**

U.S. Department of Education

**Program Name and CFDA Number**

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

**Program Award Number and Year**

H126A140067	7/1/14–9/30/15
H126A140108	7/1/14–9/30/15

***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***

During our testwork at the Vermont Department of Disabilities, Aging and Independent Living (the Department), we identified the following:

- A. For 1 out of 40 participant payments, we noted that while the participant service cost paid was for an allowable service, the cost incurred exceeded the limit as noted on the participant’s IPE. Per review of the IPE, the cost of the service to be rendered was not to exceed \$200; however, the actual amount paid was \$978. There did not appear to be documentation within the file to indicate that there was an approved modification to the IPE to allow for the additional cost.
- B. For 1 out of 40 participant payments selected for testwork, we noted that at the time of the selected expense the participant did not have an IPE outlining necessary and allowable goods and services. Additionally, we noted that the good or service provided to the participant did not appear to have been done as part of “an assessment for determining eligibility and vocational rehabilitation needs by qualified personnel, including, if appropriate, an assessment by personnel skilled in rehabilitation technology.” The individual was determined to be eligible as of December 9, 2013 and an IPE was not developed for the individual as of June 30, 2015. The item selected for testwork was paid on July 24, 2014 and represented the payment of a utility bill on behalf of the participant. While there was no documentation within the file to support the assertion, the Department indicated that the payment of the utility bill was necessary in order for the participant to participate in the development of the IPE. As an IPE has still not been developed for the participant, it is unclear as to how this payment facilitated the process.
- C. For 1 out of 40 participant payments selected for testwork, we noted that at the time of the selected expense the participant did not have an IPE outlining necessary and allowable goods and services.

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Additionally, we noted that the good or service provided to the participant did not appear to have been done as part of “an assessment for determining eligibility and vocational rehabilitation needs by qualified personnel, including, if appropriate, an assessment by personnel skilled in rehabilitation technology.” The item selected for testwork represented the payment for prescription sunglasses for participant. While there was no documentation within the file to support the assertion, the Department indicated that the payment for the prescription sunglasses was necessary in order to provide a work experience for the individual that would hopefully lead to specific work goals to be outlined in an IPE. Due to a lack of documentation maintained within the case file related to this cost, we were unable to conclude that this is an allowable cost for this participant.

- D. For 3 out of 40 participant payments selected for testwork, we noted that the selected payment was for a good or service that was not included on the participant’s IPE. Specifically, we noted the following:
- a. 1 of the 3 payments represented reimbursement of unpaid training activities for \$188 that was not included on the IPE. The Department sponsors individuals during training/work experience programs which do not compensate the participant. The “unpaid” designation is made by the Department as the individual is not engaged in actual, paid employment, which is the objective of the federal program. The training offset is designed to compensate for the individual’s time and ensure that they have the items they need to actively participate in the training. The Department indicated that the amount paid for these activities was immaterial and did not result in a substantive change to the IPE and as a result a modification to the IPE was not necessary. We were unable to find within a policy or procedure manual the definition of a substantive change to a plan. As a result, we were unable to conclude that a modification wasn’t required and that this is an allowable cost for this participant.
  - b. 1 of the 3 payments represents job development expenses provided through VABIR that were not included on the IPE for \$47. The Department indicated that participants are often referred to VABIR if they are having difficulty finding a job after an IPE is developed. No documentation however was made within the participants file to document the need for these services and as a result we were unable to conclude that a modification was not required and that this is an allowable cost for this participant.
  - c. 1 of 3 payments represents costs paid for an interpreter because the participant is hearing impaired in the amount of \$224. As the individual is hearing impaired, the Department indicated that it is required to provide the service as it is an accessibility issue. While it is a required service, it is unclear as to why it would not be included on the participant’s IPE.

#### *Cause*

The cause of the condition found is primarily due to insufficient controls and procedures surrounding the development and monitoring of IPE to ensure that IPEs are accurate and fully represent the participants’ needs. In addition, there does not appear to be sufficient documented policies or procedures in place to define when an IPE needs to be modified due to a change in services to be provided or to document within the case file when circumstances might necessitate a change to the IPE so that this standard can be applied consistently across all counselors.

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#### *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*

Not determinable.

#### *Recommendation*

We recommend that the Department strengthen its existing policies and procedures over the development of IPEs to ensure that participant costs are not paid prior to the development of an IPE, and that IPEs are inclusive of all goods and services needed to achieve the participant's employment goal. When services to be provided are changed by the counselor, documentation of these changes should be maintained within the case file.

#### *Management's Response and Corrective Action Plan*

DVR was made aware of the above potential findings in the summer of 2015. In order to be proactive, DVR has implemented a number of corrective action measures to address the findings. The following corrective actions steps will address all four areas (A, B, C, and D) identified in this finding as part of a comprehensive approach. The corrective action plan is as follows:

##### New Policy Guidance for VR Counselors

In October 2015, DVR revised policy manual chapter 203 covering the Individual Plan for Employment, to provide additional guidance around inclusion of expenditures in the plan and when an amendment of the plan is required. DVR also added chapter 208, titled "Expenditures in Status", to provide clear summary guidance to staff about expenditures at application, during plan development, in plan status and in post-employment.

##### Mandatory Retraining for all VR Field Staff and Managers

In September 2015, DVR committed to providing mandatory casework training for all VR Counselors, Program Techs, Senior VR Counselors and Regional Managers. The content of the training included the following:

- A comprehensive review of primary compliance requirements for case documentation
- Individual and small group review of actual casework to apply learning

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Four sessions of the training were conducted statewide, the last one on January 4, 2016. 100% of the required staff attended at least one of these training sessions. The content of the training will also be incorporated into DVR's standard new counselor training program. This will ensure VR counselors hired after January 2016 will receive the same content.

#### Expanded Ongoing Case Review

DVR will be implementing a new and expanded case review process to be launched in March 2016. The new process will consist of the following:

- A new standard case review tool has been developed and addresses the issues identified in this finding. All case reviews will be conducted using this tool.
- Field supervisors will review a minimum of five, randomly selected cases per counselor, per quarter using the case review tool. Results from the case review will be submitted to DVR Central Office and analyzed for patterns or trends.
- We have assigned a staff member to review all cases and monitor completion. This staff member will also conduct case record reviews of a random sample of cases in each district office on an annual basis, using the standard case review tool.

#### Review of Expenditures

In April 2016, DVR will conduct a one-time review of expenditures in status 10 (pre-plan comprehensive assessment) and status 12 (in plan status). The review will determine the following:

For expenditures in status 10 (pre-plan comprehensive assessment) DVR will review the case record to determine if there is sufficient documentation that the expenditures are consistent with a comprehensive assessment necessary to develop a plan.

For expenditures in status 12 (in plan status) DVR will review the case record to determine if:

- The service is on the plan and the actual amount expended does not exceed the planned total.
- The expenditure required an amendment to the plan and if that amendment is in place.

Depending on the results of this review, DVR may conduct additional reviews.

#### AWARE Electronic Case Management System

DVR currently does not have a modern electronic case management system that would provide automated controls around expenditures. DVR is in the last stages of finalizing a contract with Alliance Enterprises for the AWARE VR case management system. AWARE will provide DVR with automated controls that would support compliance. For example, AWARE would not allow the authorization of an expenditure that was not on the Individual Plan for Employment. In the longer term we believe AWARE will resolve most findings including the ones outlined here. We expect the AWARE system to go live in 2017.

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***Scheduled Completion Date of Corrective Action Plan***

- Revisions to the DVR policy manual: Completed and published October 2015
- Mandatory retraining of all VR field staff and managers: Completed January 4, 2016
- Expanded ongoing case review: Reviews will start March 2016
- Review of Case Expenditures: Review to be completed April 2016.

***Contact for Corrective Action Plan***

James Smith, Budget and Policy Manager, Division of Vocational Rehabilitation, (802) 871-3031  
Rob Roberts, AHS Audit Chief, (802) 241-0446

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Schedule of Findings and Questioned Costs

Year ended June 30, 2015

**Finding 2015-027**

U.S. Department of Education

**Program Name and CFDA Number**

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

**Program Award Number and Year**

H126A140067 7/1/14–9/30/15

H126A140068 7/1/14–9/30/15

***Criteria***

When an Individualized Plan for Employment (IPE) is required for the provision of Vocational Rehabilitation (VR) services under Section 103(a) of the Act, it must be done as soon as possible, but not later than 90 days after the date of the determination of eligibility by the State VR agency, unless the State VR agency and the eligible individual agree to an extension of that deadline to a specific date by which the IPE must be completed (Section 102(b)(3)(F) of the Act (29 USC 722(b)(3)(F))).

***Condition Found***

During our testwork over the development of IPEs for eligible participants, we noted the following:

- A. For 3 of 40 program participants selected for testwork, the delay in preparing the participant’s IPE was documented within the 90-day window. However, we noted that the delay notice did not outline “an extension of that deadline to a specific date by which the IPE must be completed” agreed upon by both the participant and the State VR Agency as required by federal regulations.
- B. For 6 of 40 program participants selected for testwork, we noted that an IPE was not created within the 90-day window, and that there was no documented reason for the additional time needed to complete the IPE.
- C. For 3 of 40 program participants selected for testwork, we noted that an IPE delay was documented after the 90-day window had passed.

***Cause***

The cause of the condition found is primarily due to a lack of controls to ensure that IPEs are developed timely or to ensure that causes for delays in the eligibility determination process are properly documented, indicating a specific extension of the deadline within the participant’s case file.

***Effect***

The effect of the condition found is that otherwise eligible applicants may not receive services 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 strengthen its existing policies and procedures over IPE development and IPE delay documentation so that cases are reviewed to ensure that IPEs are created within the 90-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*

##### Context of Finding

It should be noted that IPE timeline documentation requirements were new provisions under the Workforce Innovation and Opportunity Act (WIOA) that was passed in July 2014. It should also be noted that implementation of the VR portions of WIOA were effective when the Act was signed. There was no time provided for VR agencies to analyze and understand the provisions prior to implementation. WIOA included some of the most dramatic changes to the Rehabilitation Act in thirty plus years. DVR focused on the major changes in the Act, in particular the new requirement that the Division spend 15% of the Title I award on Pre-Employment Transition Services. Since the passage of WIOA, DVR has been operating without final regulations. DVR has also been operating without technical assistance from RSA due to a gag order put in place until the regulations are finalized. As a result Vermont DVR (and other State DVR agencies) did not become aware of the new IPE documentation provision until the spring of 2015.

##### Corrective Action Plan

DVR was made aware of the above potential findings in the summer of 2015. In order to be proactive, DVR has implemented a number of corrective action measures to address the findings. These are as follows:

##### Standard Documentation of IPE Delay

In July 2015, DVR created a standard adobe form to document IPE delay (VR 12.4). The form is designed to ensure compliance with the WIOA documentation requirements. In August 2015, the form was added to the DVR form set and all staff were instructed to use only the VR 12.4 when documenting the delay.

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#### Mandatory Retraining for all VR Field Staff and Managers

In September 2015, DVR committed to providing mandatory casework training for all VR Counselors, Program Techs, Senior VR Counselors and Regional Managers. The content of the training included:

- A review of the new Workforce Innovation and Opportunity Act requirements regarding IPE timelines
- The procedures for documenting an IPE delay using the VR 12.4

Four sessions of the training were conducted statewide, the last one on January 4, 2016. 100% of the required staff attended at least one of these training sessions. The content of the training will also be incorporated into DVR's standard new counselor training program. This will ensure VR counselors hired after January 2016 will receive the same content.

#### Expanded Ongoing Case Review

DVR will be implementing a new and expanded case review process to be launched in March 2016. The new process will consist of the following:

- A new standard case review tool has been developed and addresses the issues identified in this finding. All case reviews will be conducted using this tool.
- Field supervisors will review a minimum of five, randomly selected cases per counselor, per quarter using the case review tool. Results from the case review will be submitted to DVR Central Office and analyzed to patterns or trends.
- We have assigned a staff member to review all cases and monitor completion. This staff member will also conduct case record reviews of a random sample of cases in each district office on an annual basis, using the standard case review tool.

#### Review of Cases that Exceed the 90 day timeline

In April 2016, DVR will conduct a one-time review of cases that exceed the 90 timeline for development of the IPE. The review will determine if:

- The delay was agreed to by the consumer and a specific date for completion established
- The information was properly documented in the DVR case record using the VR 12.4

Depending on the results of this review, DVR may conduct additional reviews.

#### AWARE Electronic Case Management System

DVR currently does not have a modern electronic case management system that would provide automated controls around timelines. DVR is in the last stages of finalizing a contract with Alliance Enterprises for the AWARE VR case management system. AWARE will provide DVR with automated controls that would support compliance. We expect the AWARE system to go live in 2017.

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***Scheduled Completion Date of Corrective Action Plan***

- New procedures and IPE delay form (VR 12.4) implemented: Completed August 2015
- Mandatory retraining of all VR field staff and managers: Completed January 4, 2016
- Expanded ongoing case review: Reviews will start March 2016
- Review of cases that exceed the 90 day timeline: Review to be completed April 2016

***Contact for Corrective Action Plan***

James Smith, Budget and Policy Manager, Division of Vocational Rehabilitation, (802) 871-3031  
Rob Roberts, AHS Audit Chief, (802) 241-0446

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Schedule of Findings and Questioned Costs  
Year ended June 30, 2015

**Finding 2015-028**

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**

H126A140067	7/1/14–9/30/15
H126A140108	7/1/14–9/30/15

***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 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; and (4) ensuring that subrecipients expending \$500,000 or more in federal awards during their 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 Vermont 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 3.5 (Bulletin

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3.5), *Contracting Procedures*, 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 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 (and the Agency as a whole) does not maintain documentation to support its vendor determination process. Based on the agreements themselves, 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 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 that no similar monitoring procedures were 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.
  - All 8 procurement grants contained payment provisions that were typical for a subrecipient arrangement.

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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A similar finding was noted as part of the June 20, 2014 single audit and was reported as finding 2014-022.

#### *Cause*

The cause of the condition found is that the Department and the Agency as a whole does not have policies or procedures in place to make vendor and subrecipient determinations. 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 do not consistently code these agreements within the VISION grant tracking module. 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 monitored the federal funds granted to ensure that they were used for allowable purposes.

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. The determination should be 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.

#### *Management's Response and Corrective Action Plan*

##### Management Response

It should be noted that for 7 of the 8 agreements reviewed there is a statement on page one, item #5. "Relationship: The State does not consider the Grantee a subrecipient per OMB Circular A-133 for purposes

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of this Grant.” Therefore we do not believe the nature of the grant relationship was unclear to the grantee. Only for the Master Grant Agreement were there both subrecipient and vendor/contract relationships in the same agreement, and the sub recipient relationships were clearly limited to non-VR programs.

We agree the language of the DVR agreements could have been written more clearly to describe the vendor/contract relationship. We have taken steps to clarify this for DVR agreements going forward.

#### Corrective Action Plan

After the Department received the finding from 2014, we worked under the direction of the Agency of Human Services to develop and implement a process to determine the type of agreement necessary. The Department Exhibit B Subaward or Procurement Determination form is the primary tool for the originator to determine the type of agreement needed on a case by case basis. The use of the form was integrated into the Department’s grants/contracts process in the spring of 2015.

All DVR Title I agreements starting July 2015, are written as procurement agreements and have the following features:

- The vendor is always identified as the contractor.
- In each agreement, it is clear DVR is not entering a subrecipient relationship with the contractor. The State DVR program maintains control of the core functions for the Title I program, including acceptance of an application, determination of eligibility, development of the Individual Plan for Employment and case closure, and is not subawarding those functions to the vendor.
- The procurement agreements have specific performance targets for the contractor to achieve. In most cases these performance requirements are related to job placement and job retention of DVR consumers.

In the SFY 16 Designated Master Grant Agreements, the DVR sections were rewritten as described above. However, the DVR procurement agreement was still included in the overall Master Grant Agreement that includes other Department and Division agreements that are subrecipient agreements. In December 2015, DAIL/DVR had a conference call with the Rehabilitation Services Administration (RSA) to review the audit finding. RSA made the following recommendation:

*“Due to the language and nature of the master grant agreement, i.e. using the term ‘grant’ throughout the agreement, the agency will most likely continue to receive a similar audit finding each year unless the language in the master grant agreement is updated to reflect the relationship of a procurement type of agreement, or until the agency can write their own agreements. It would be beneficial to the agency if they were not included in the Master Grant, thereby utilizing the appropriate terms that adequately reflect the type of agreement the agency uses.”*

Based on this feedback, DAIL and AHS are currently in discussions about removing DVR from the Master Grant Agreement for SFY 17.

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*Scheduled Date of Completion of Corrective Action Plan*

- Implementation of Exhibit B Subaward or Procurement Determination form: July 1, 2015
- Implementation of new DVR procurement agreement format: July 1, 2015
- Proposed removal of DVR procurement agreements from Designated Agency Master Grant Agreement: July 1, 2016

*Contact for Corrective Action Plan*

James Smith, Budget and Policy Manager, Division of Vocational Rehabilitation, (802) 871-3031  
Rob Roberts, AHS Audit Chief, (802) 241-0446

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#### **Finding 2015-029**

U.S. Department of Education

#### **Program Name and CFDA Number**

Twenty First Century Community Learning Centers (CFDA #84.287)

#### **Program Award Number and Year**

S287C140046 7/1/14–9/30/15

#### ***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 10 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 10 grants selected for testwork.

A similar finding was noted as part of the June 30, 2014 single audit and was reported as finding 2014-027.

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#### *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.

#### *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*

##### **Condition A:**

As soon as possible after the 2014 audit was completed, we implemented new procedures which went into effect as of July 1, 2015. Notification is now provided within the *Grantium e*-system and was verified by the auditor. As of July 1, 2015 all 21c sub-grantees have been notified and there are signatures within *Grantium* to certify this.

##### **Condition B:**

As soon as possible after the 2014 audit was completed, we implemented a full verification process through the Annual Performance Report within *SurveyMonkey* which went into effect as of July 1, 2015. This involves checkboxes and details from each sub-recipient on the nature of the consultation. In addition, these processes are monitored both through the APR review and the new monitoring rubric.

#### *Scheduled Date of Completion of Corrective Action Plan*

Completed as of July 1, 2015

#### *Contact for Corrective Action Plan*

Emanuel Betz – (802) 479-1396

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**Finding 2015-030**

U.S. Department of Health and Human Services

**Program Name and CFDA Number**

TANF Cluster:

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)  
ARRA – Temporary Assistance for Needy Families Supplemental Grants (CDFA # 93.716)

**Program Award Number and Year**

1402VTTANF	10/1/13–9/30/14
1502VTTANF	10/1/14–9/30/15

**Criteria**

The state provides the specifics on how eligibility is determined in each state. Whenever used in this section, “assistance,” has the meaning in 45 CFR section 260.31(a) of the TANF regulations for states.

**Condition Found**

During our testwork over the eligibility determination process for the TANF program, we noted that for 3 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), as required by the State of Vermont Department for Children and Families (the Department). 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.

A similar finding was noted as part of the June 30, 2014 single audit and was reported as finding 2014-035.

**Cause**

The cause of the condition found is that the Department relies completely on the ACCESS system and does not perform sufficient independent reviews 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. We noted that the Department implemented an independent manual 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.

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#### *Effect*

The effect of the condition found is that errors in eligibility 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 significant deficiency 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*

1. The lack of "Child and Medical Support Authorization" forms (137's) will be addressed by:
  - a. Updating the current child support procedures which will instruct workers to carefully review cases both when initially applying and when they come up for review to look for the child support forms.
  - b. Addressing and highlighting the expectations around gathering and reviewing the child support forms at new worker training a.k.a. Reach Up Financial Assistance training
  - c. Sending out an email to all workers that child support forms must be looked over at each client's review period

The following action steps will be completed by February 29, 2016.

2. In addition to what is outlined above, a Quality Assurance (QA) review was put in place for TANF. The review involves ensuring child support forms are in our OnBase system to support what is in ACCESS, and if they are not, the worker is asked to request these forms from the client. If the forms are not returned by the client, the case will be closed. The cases that are reviewed under this QA process are logged and monitored by ESD operations. These procedures are expected to improve consistency for documentation of reviews and the resolutions to errors in the log.

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*Scheduled Completion Date of Corrective Action Plan*

February 29, 2016

*Contact for Corrective Action Plan*

Miranda Gray, Program Benefits Administrator, (802) 769-6263  
Rob Roberts, AHS Audit Chief, (802) 241-0446

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**Finding 2015-031**

U.S. Department of Health and Human Services

**Program Name and CFDA Number**

TANF Cluster:

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)  
ARRA – Temporary Assistance for Needy Families Supplemental Grants (CFDA # 93.716)

**Program Award Number and Year**

1402VTTANF	10/1/13–9/30/14
1502VTTANF	10/1/14–9/30/15

**Criteria**

The state provides the specifics on how eligibility is determined in each state. Whenever used in this section, “assistance” has the meaning in 45 CFR section 260.31(a) of the TANF regulations for states.

**Condition Found**

The Economic Services Division of the State of Vermont’s 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, 2015, 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, 2014 single audit and was reported as finding 2014-036.

**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

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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; 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*

A part of 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.

- 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.

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- 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.
- 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.

In addition, TANF was added to the Quality Assurance (QA) review that was being completed for SNAP. The QA involves review of cases, errors found are sent to the district office where the error was made, and then the worker has the opportunity to correct the error. It points to trends in errors so we can do targeted training.

On an annual basis there is a desk review process that is run to update the ACCESS system with changes that are required either by a federal or state mandate. This can be an update to the Federal Poverty Level (FPL), FNS standards used to determine 3SVT eligibility, LIHEAP payment standards and or the TANF ratable reduction. The FPL and other standards and deductions determine financial eligibility and benefit amount.

Program teams work together with our IT partners to form a committee to ensure that the information that is required to be part of the ACCESS system is reviewed for accuracy and programmed correctly into ACCESS. There are system requirements developed as well as a testing plan. We have testers from within our Benefit Programs Eligibility staff who are assigned to work with the team to test the changes thoroughly and work out any bugs or incorrect data. Cases are run through the desk review program changes; however, prior to full implementation, the testing team will review the cases for accuracy prior to moving forward with the mass change. While not all our TANF cases are part of the desk review run, there are those cases that have social security benefits that do go through the cost of living desk review when there are changes to those benefits.

We will be working with our IT partners and programs to develop a test plan for each desk review that is run annually that will also review our internal data for TANF benefits.

#### ***Scheduled Completion Date of Corrective Action Plan***

February 29, 2016

#### ***Contact for Corrective Action Plan***

Miranda Gray, Program Benefits Administrator, (802) 769-6263  
Rob Roberts, AHS Audit Chief, (802) 241-0446

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**Finding 2015-032**

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-15B1VTLIEA	10/1/14–9/30/15
G-14B1VTLIEA	10/1/13–9/30/14

**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 Vermont 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 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 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. Several inquiries were made with the Department and it was

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

A similar finding was noted as part of the June 30, 2014 audit report and was reported as finding 2014-038.

***Cause***

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 year ended June 30, 2014; 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. The Department developed a corrective action plan for this deficiency that was to be implemented as of July 1, 2015. Given the timing of the corrective action plan we were unable to test this process as of the year ended June 30, 2015.

***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 such errors.

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 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.

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***Management's Response and Corrective Action Plan***

The Economic Services Division (ESD) maintains a Supervisory Case Review procedure using the SCR-EDS 242 form and guidance. The procedure is done at the district office level on a sampling basis. This procedure was implemented during FY 14 and reviewed again for FY 15 per the corrective action for that period. ESD and its IT will continue to improve upon this procedure and process so that the auditor will be able to test the process on a timely basis. ACCESS control deficiencies will be addressed as IT resources become available.

***Scheduled Completion Date of Corrective Action Plan***

July 1, 2015 with a follow up review to be completed by February 29, 2016

***Contact for Corrective Action Plan***

Rob Roberts, AHS Audit Chief, (802) 241-0446

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**Finding 2015-033**

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-15B1VTLIEA	10/1/14–9/30/15
G-14B1VTLIEA	10/1/13–9/30/14

***Criteria***

Low Income Home Energy Assistance Program (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 LIHEAP, we noted the following:

- A. 7 of 40 participants selected for testwork utilize wood as their home heating source. As part of the fuel benefit payment process, individuals who utilize wood or wood pellets as their home heating source, receive their benefit in the form of a check, or it is applied to their electronic benefit transfer (EBT) card issued by the State of Vermont. The benefit is applied as a cash benefit. Once applied to the EBT card, there are no restrictions placed on these funds as to what the funds can be used to purchase. As a result, we are unable to verify that this expenditure is used for allowable costs in the purchase of wood and wood pellets. The total amount of fuel assistance paid for related to wood and wood pellets during the period ending June 30, 2015 was \$1,110,281.
- B. 10 of 40 participants selected for testwork received a \$21 benefit payment under the State of Vermont Heat and Eat Program. The Federal Farm Bill (the Bill) established that if there was a minimum Fuel Assistance benefit of \$21 received by a participant, the participant would be eligible to receive a full utility allowance deduction as part of their benefit calculation under the Supplemental Nutritional Assistance Program (SNAP) effectively increasing the participant's monthly SNAP benefit allotment. While these individuals would have met the monetary eligibility requirement for the LIHEAP program and also received SNAP benefits, there was no documentation in the file, such as a landlord certification, indicating a portion of their rent (if any was paid) was used to support a heating or cooling liability. As there was no documentation to support that these participants have a heating or cooling liability, we are unable to conclude that these payments are allowable. Approximately \$510,783 in fuel assistance benefits were paid during the period ending June 30, 2015 to participants that met the monetary eligibility requirement for LIHEAP and were recipients of benefits under SNAP.
- C. 4 of 40 participants selected for testwork had a household income greater than 150% of the state's poverty level. While these participants would have met the eligibility requirements for state fuel

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assistance, federal eligibility requirements prohibit assistance to households with income greater than 150% of the state's poverty level. As payments made to participants for both the LIHEAP and State fuel programs are comingled in the same expenditure account, there is no way to determine whether State or federal funds were used to pay for these benefits.

#### *Cause*

The cause of the condition found related to benefits paid for wood and wood pellets as outlined in A above is that there are currently no restrictions placed within the EBT cards that would prevent participants from using the cash benefits paid for items other than the intended purchase of wood or wood pellets. The cause of the condition found outlined in B and C above is that the State of Vermont has not maintained sufficient documentation to support that benefits paid to participants that do not meet the eligibility requirements related to income standards and heating or cooling liabilities were not paid for through the use of federal funds.

A similar finding was noted as part of the June 30, 2014 single audit and was reported as finding 2014-039.

#### *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 or benefits were paid on behalf of participants who were not eligible for federal benefits.

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

#### *Questioned Costs*

\$510,783 – the amount identified in B above.

#### *Recommendation*

We recommend that the Department review its existing procedures and implement controls to ensure that federal funds are used only for benefit payments that are allowable and that federal funds are only used to provide benefits to participants that meet federal eligibility requirements. The Department should also review its exiting practice to apply a cash benefit payment to EBT cards to determine whether or not restrictions can be placed on those funds so that the participant can only purchase wood or wood pellets with the funds.

#### *Management's Response and Correction Action Plan*

A. The ESD Fuel & Utility Office (FUO) agrees with the 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 LIHEAP statute provides broad discretion to states as to how to use their funds. In light of this, the State of Vermont, through statute, has decided not to certify firewood or pellet suppliers and has not identified a recipient or program management requirement to document these purchases. Starting with award year 2015/2016 the ESD

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FUO has, along with the benefit notices, included a notice 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.

- B. The ESD Fuel & Utility Office agrees with the finding for recipients receiving a \$ 21 fuel benefit. Presently, recipients are required to attest that they “pay for heat directly, have heat included in their rent, or rent a room in someone else’s home.” Recipients whose heat is included in the monthly rent are deemed by state statute and by department rules to “make undesignated payment for energy for heat in the form of rent”. This is in accordance with the HHS Accepted FFY 2015 LIHEAP Block Grant Plan under “SNAP Nominal Payments”. The self-declaration is in the form of a box checked off on the application either by the applicant or by the office intake worker if by telephone. As a new procedure, the fuel office will check the declarations on a sample basis to confirm liability by requesting invoices, late notices, check payments, confirmation from landlords of rents that include heat, and other means of documentation.
- C. The ESD Fuel & Utility Office agrees with this finding. The ESD FUO is currently developing a report from the ACCESS system that will include client name, award amount, percent of FPL, and from what source of funds the client was paid. This report will provide the necessary data to insure that Federal funds are not being expended on State only eligible clients and that the State funds are great enough to cover this population of clients. The report is expected to be in place prior to the beginning of the 2016/2017 heating season.

***Scheduled Completion Date of Corrective Action***

- A. Procedure currently in place as of September 15, 2015
- B. September 15, 2016
- C. September 15, 2016

***Contacts for Corrective Action Plan***

Rob Roberts, AHS Audit Chief, (802) 241-0446

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**Finding 2015-034**

U.S. Department of Health and Human Services

**Program Name and CFDA Number**

ACA – State Innovation Models: Funding for Model Design and Model Testing (CFDA #93.624)

**Program Award Number and Year**

1G1CMS331181-03

4/1/13-6/30/16

*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).
- 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. Under the State’s policy, all subrecipients who are estimated to receive \$10,000 or more during the fiscal year will undergo a desk review at least once during the grant period. If a subrecipient receives less than \$10,000, the State may at its discretion opt to conduct a desk review.

*Condition Found*

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

- A. For all 4 subrecipients selected for testwork, the Department of Vermont Health Access (the Department) did not have a DUNS number on file for the subrecipient.
- B. For 1 of 4 subrecipients selected for testwork, the grant agreement did not contain the required federal identifying information such as CFDA number, and it was unclear that the funding provided under this program was federally funded. The Department indicated that the grant selected was a procurement grant and therefore was a contract for services. As such, the Department believed the federal funding source did not need to be included in the procurement agreement and the cost could be charged to this program.

In accordance with its approved contracting plan, the Agency of Human Services is allowed to enter into a grant in accordance with the State of Vermont subrecipient monitoring policy contained within State of Vermont Bulletin 3.5 (Bulletin 3.5), *Contracting Procedures*, 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).

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Per review of this particular agreement, the procurement grant was for the creation and management of the Vermont Health Network Exchange. The agreement contained specific performance measures that are required to be met as a condition of funding and appears to be requesting services that are part of a program to be operated on behalf of the program and the State. It is unclear based on the language included in the agreement that the Department had intended this agreement to be a contract and not a grant.

- C. For the grant identified in Bullet B above, we noted that while the Department indicated that the agreement was a procurement grant representing a contract and not a traditional subrecipient, the grantee had submitted an A-133 audit to the Department for review that included funding under this program as a federal expenditure, which is inconsistent with how a contractor would handle the receipt of federal funds. We were informed that the Department did not review the report submitted by the subrecipient and did not include the grant within the State's VISION grant tracking module as it did not consider the agreement to be a grant agreement.

#### *Cause*

The cause of the condition found in Bullet A was primarily insufficient monitoring procedures in place to ensure that the required DUNS numbers were obtained.

The cause of the conditions found in Bullets B and C 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 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.

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

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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***

- A. The department agrees with this condition. The Contracts & Grants Unit (C&G) utilizes a checklist template upon the approval of the Request to Contract Form. At the time of the audit finding, this template did not have a field for either the DUNS identifier or the CFDA number. The template has been modified to incorporate fields for this information. Staff have also been trained to know that these are required fields for federal grants.
  
- B. & C. The department agrees with both conditions. They are the result of following procedures for procurement agreements and having unclear language in the agreements to distinguish them from sub-awards. Going forward, the department will review its procedures and utilize a Sub-award/Procurement determination form to substantiate the substance of the agreement. It will also consult with DVHA legal staff when necessary to ascertain the appropriate language for the agreement. With regard to the submission of an A-133 audit report by the vendor cited in the audit test work, the report was submitted in connection with a different agreement that had federal funding and a sub-award relationship with the State.

***Scheduled Completion Date of Corrective Action Plan***

February 23, 2016

***Contact for Corrective Action Plan***

Rob Roberts, AHS Audit Chief, (802) 241-0466

Nicole Wilson, Financial Director III, (802) 241-0406

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Year ended June 30, 2015

**Finding 2015-035**

U.S. Department of Health and Human Services

**Program Name and CFDA Number**

ACA – State Innovation Models: Funding for Model Design and Model Testing (CFDA #93.624)

**Program Award Number and Year**

1G1CMS331181-03                      4/1/13-6/30/16

*Criteria*

States, and government 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.

A State of Vermont Contract Summary and Certification form AA14 is completed for all approved contracts and is approved by the Attorney General and Secretary of Administration. The Secretary designated his signing authority to the Deputy Secretary of Administration.

*Condition Found*

During our testwork over the procurement process, we noted that 2 of 8 contracts selected for testwork had inconsistent start and end dates per the contract and the AA14 contract approval form.

*Cause*

The cause of the condition found is primarily due to insufficient review procedures to ensure that the required forms used to approve contracts are complete and accurate prior to the execution of the contract.

*Effect*

The effect of the condition found is that a contract could be entered into that contains terms that are not consistent with what was approved by the Department of Vermont Health Access (the Department).

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

*Questioned Costs*

None.

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***Recommendation***

We recommend that the Agency of Human Services review its procedures for approving contracts and ensure that there are sufficient controls in place over the approval of the contract terms.

***Management's Response and Corrective Action Plan***

This finding is due to human error. Since these agreements were executed, we have reduced the workload of the person responsible for VHCIP/SIM agreements (spread over additional FTEs) to reduce the occurrence of human error.

In addition, the Contracts & Grants unit (C&G) has implemented a policy by which a secondary review specifically for date inconsistencies and other data entry errors will occur prior to agreement execution and the Checklist template has a field for specific sign-off by the reviewer. If the C&G staff identifies errors after an agreement has been executed, the errors will be documented, with corrections noted, all parties will be notified of the discrepancy and the notification will be retained in the contract folder.

***Scheduled Completion Date of Corrective Action Plan***

February 23, 2016

***Contact for Corrective Action Plan***

Rob Roberts, AHS Audit Chief, (802) 871-3006  
Nicole Wilson, Financial Director III, DVHA, (802) 241-0446

**STATE OF VERMONT**  
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**Finding 2015-036**

U.S. Department of Health and Human Services

**Program Name and CFDA Number**

ACA – State Innovation Models: Funding for Model Design and Model Testing (CFDA #93.624)

**Program Award Number and Year**

1G1CMS331181-03                      4/1/13-6/30/16

***Criteria***

Costs and services provided under the State Innovation Model (SIM) program are any services described in the Funding Opportunity Announcement necessary to implement and test a State Health Care Innovation Plan and produce better health, better care, and lower cost through improvement for Medicare, Medicaid, and CHIP beneficiaries.

***Condition Found***

During our testwork over activities allowed and allowable costs, we noted the following:

- A. 3 of 40 invoices selected for testwork were not properly reviewed prior to payment. The policy of the Department of Vermont Health Access (the Department) is to have all invoices reviewed by both the agreement administrator and the program manager. These invoices were reviewed by only one individual prior to payment.
- B. For 1 of 40 invoices selected for testwork, the VISION voucher that was prepared to process the payment indicated the invoice was to be applied against State Grant 03420-1295-14. Based on our discussion with the Department, this State Grant does not exist and is believed to be a coding error.
- C. For 1 of the 40 invoices selected for testwork, the payment included a reimbursement for costs related to services performed prior to the contract start date. As a result, the payment made to the contractor was not in line with the terms outlined within the contract.

***Cause***

The cause of the condition found is primarily due to deficiencies within the Agency’s review and approval process for 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 allowed under the program.

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

***Questioned Costs***

\$51,715

***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 grant and contract guidelines.

***Management's Response and Corrective Action Plan***

- A. The department agrees with this condition. While there is no written policy providing for more than one review, it is the department's intention and practice that this will occur. The errors cited were the result of oversight. The Contract & Grants Unit (C&G) will write a formal policy that defines policy and protocols for the processing of VHCIP/SIM invoices and train staff accordingly.
- B. The department agrees with this condition. The wrong code on the invoice in question was the result of human error. The paper document used to process the voucher referenced the wrong State Grant number. However, the payment was applied against the correct State Grant number in VISION for the agreement involved. In order to prevent this problem from occurring again, the department has reduced the workload of the responsible staff, implemented a Coding Template, and is reviewing its procedures for processing invoices in VISION.
- C. The department agrees with this condition but disagrees that there are questioned costs. This was an error related to coding by a staff member and heavy workload. An incorrect agreement was referenced on the paper document used to process the voucher. The costs in question were also allowable under a different agreement that was in force during the time period with the contractor identified in the audit sample, therefore this was an allowable cost. In order to prevent this problem from occurring again, the department has reduced the workload for the staff involved. The C&G unit has also implemented a Coding Template that is to be completed by the contract administrator and attached to the invoice and supporting documentation.

***Scheduled Completion Date of Corrective Action Plan***

Staff and workload changes – Completed September 2015

Coding Template Integration – Completed February 18, 2016

Write Policy for processing VHCIP/SIM and provide staff training – Completed by March 9, 2016

***Contact for Corrective Action Plan***

Rob Roberts, AHS Audit Chief, (802) 241-0466

Nicole Wilson, Financial Director III, (802) 241-0406

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**Finding 2015-037**

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
1501VT1401	10/1/14–9/30/15

**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 provider’s 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 6 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 2 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 these providers was accurate.
- C. For 1 of 40 providers selected for testwork, the provider was a residential treatment facility and was being paid at a Level 3 daily reimbursement rate. Given the resources available to the residential treatment facility, the Level 3 rate was agreed upon as being reasonable and it was less than the prevailing daily treatment rate of the residential facility. We were unable to obtain documentation, such as a contract or other correspondence, however, that supported the payment arrangement entered into with the residential treatment facility to support the daily reimbursement rate being paid.

A similar finding was noted as part of the June 30, 2014 single audit and was reported as finding 2014-040.

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#### *Cause*

The cause of the condition found for items A and B above 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. The cause of the condition found for item C above is that the Department did not maintain any formal documentation such as a contract to support the funding arrangement used to support the services provided by the residential treatment facility.

#### *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.

The condition found appears to be systemic 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 as well as contracts or other agreements with residential treatment facilities where the subsidy rate has been negotiated or is other than their stated daily rate.

#### *Management's Response and Corrective Action Plan*

- A. Record of completion of basic foster care training is maintained by the Residential Licensing & Special Investigations (RLSI) unit in the Foster Care Database (FOSDB). RLSI receives this data from the UVM Child Welfare Training Project who is the provider of the training. UVM CWTP implemented a new in house database within the past 6 months. The RLSI Director will review the protocols regarding information sharing between these two units (and their non-connected databases) to ensure that appropriate information is being transferred without error.

Record of waiver of basic foster care training is kept in paper file with the RLSI unit. Any family who has refused to attend basic training should have a waiver in place or their license would be subject to revocation. The RLSI Director will review options to create a protocol to effectively identify homes which have been licensed for one year but have not received training. This will require an IT request for creation of automated electronic reporting.

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- B. 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 the corrective action plan. The 2014 plan resulted in an updated version of Family Services Division Policy 93 Kin and Foster Parent Training effective 06/18/2014. The current corrective action plan will revisit the policy to include language that will grandfather foster parents who achieved higher level status prior to the policy effective date.
  
- C. The Family Services Division Revenue Enhancement Unit (REU) in conjunction with the DCF Business unit will ensure that a written agreement is on file regarding the current informal agreement to reimburse the licensed residential treatment program at the Level 3 foster care rate. REU maintains record of contracts and grants with like institutions.

***Scheduled Completion Date of Corrective Action***

April 1, 2016

***Contact for Corrective Action Plan***

Rob Roberts, AHS Audit Chief, (802) 241-0446

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**Finding 2015-038**

U.S. Department of Health and Human Services

**Program Name and CFDA Number**

Adoption Assistance (CFDA #93.659)

**Program Award Number and Year**

1401VT1407	10/1/13–9/30/14
1501VT1407	10/1/14–9/30/15

***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% 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 that for 5 of 40 payments selected for testwork, the child's file showed an increase in the Adoption subsidy daily rate but there was no documentation to support that the new Adoption subsidy rate was not greater than the Foster Care rate as required by federal regulations.

A similar finding was noted as part of the June 30, 2014 single audit and was reported as finding 2014-042.

***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 they are, to ensure that documentation to support why the rates are appropriate is maintained within the case file.

***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.

***Questioned Costs***

Not determinable.

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#### ***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 agree. Based on past findings, we implemented a procedure on 1/1/2015 to ensure that when we are amending agreements, we do not exceed the maximum rate that would be available if the child were in foster care at the time the agreement was re-negotiated. Many children on adoption assistance have high levels of disabilities. Had they remained in foster care, they would receive very specialized rates. During the past 3 months, we have refined our process to document the need for an enhanced rate that does not comport with standard foster care rates. The new form is consistent with the Foster Care Responsibility form used for enhanced rates in the foster care system. It will be in effect as of 02/01/2016.

Each amendment is discussed and approved by both the Adoption Manager and the Deputy Commissioner. In accordance with program rules, the State will modify the files not in compliance whenever adoptive parents agree to that modification. (Note: Per Federal rules, adoption assistance agreements may not be unilaterally modified by the State agency).

#### ***Scheduled Completion Date of Corrective Action Plan***

New form to be used starting 02/01/2016.  
Modification of the files will be performed throughout the fiscal year.

#### ***Contact for Corrective Action Plan***

Rob Roberts, AHS Audit Chief, (802) 241-0446

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**Finding 2015-039**

U.S. Department of Health and Human Services

**Program Name and CFDA Number**

Social Services Block Grant (CFDA #93.667)

**Program Award Number and Year**

G-1301VTSOSR            10/1/12–9/30/14

G-1401VTSOSR            10/1/13–9/30/15

***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 subrecipient grant agreement was not properly signed by the Secretary of the Vermont Agency of Human Services (the Agency), as required by the Agency's internal procedures.
- B. For all 5 subrecipients selected for testwork, we were unable to determine whether or not the Agency had a DUNS number on file for the subrecipient prior to entering into the award.
- C. For 2 of 5 subrecipients selected for testwork, grant agreements were entered in the State of Vermont's VISION grant tracking module as nonsubrecipient grants. Since they were considered contracts (or procurement grants as discussed below) and not subrecipient grants, an A-133 audit was not obtained for each of these as normally would be required for a subrecipient award.
- D. For all 5 subrecipients selected for testwork, the Agency did not communicate the appropriate award identifying information to the subrecipient.

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A similar finding was noted as part of the June 30, 2014 single audit report and was reported as finding 2015-045.

#### *Cause*

The cause of the condition found is primarily that the Agency considered these agreements to be procurement grants. 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 3.5 (Bulletin 3.5), *Contracting Procedures*, 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 a subaward). While the Agency considers these agreements to be a procurement grant, the Agency as a whole does not have any policies or procedures in place to document its vendor and subrecipient determination process. 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 noted above, the Agency does not consistently code these agreements within the VISION grant tracking module. Finally, the Department inconsistently performs monitoring procedures over procurement grants as though they are subrecipient grants. In this program, we noted that the Agency performed monitoring procedures over each of these agreements.

#### *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.

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*

A. The agency agrees with this condition. The initial 2015 agreement was signed late in the fiscal year due to the belief that an extension of the FY 14 agreement was in place covering the audited period until the

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new agreement was executed. The agency will review its approval and signature process to prevent further oversight.

- B. B., C. & D. The agency agrees with these conditions. They are the result of the agency processing these agreements with the intent and belief that their relationship with the State was that of procurements in grant form (i.e. contracts) as allowed under the Agency of Administration Bulletin 3.5. The agency agrees that the agreements may have not been consistent with procurement protocol and therefore unclear as to their nature and requirements for monitoring and reporting. Going forward into FY 16, these agreements are being treated as Sub-awards with a fee-for service procurement component. The Federal grant funds awarded, to include SSBG but not fee-for service payments, shall be reported and monitored as required of Sub-recipient grants. We will obtain DUNS information, the agreements will include all federal award information, be entered into the VISION grant tracking module, and undergo a determination process with supporting documentation.

***Scheduled Completion Date of Corrective Plan***

- A.) February 26, 2016
- B.C.D.) July 1, 2015

***Contact for Corrective Action Plan***

Rob Roberts, AHS Audit Chief, (802) 241-0446

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**Finding 2015-040**

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**

05-1505VT1081      10/1/2014–9/30/2016

***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 our testwork over eligibility, we noted that the Vermont Department for Children and Families (the Department) automatically re-enrolled individuals for Children Health Insurance Program (CHIP) benefits without a proper review of eligibility requirements. The individuals that were re-enrolled were people who had not properly signed up for benefits through the Vermont Health Connect, the State of Vermont's health exchange. As these individuals were going to lose health insurance coverage, the State of Vermont (the State) made a decision to re-enroll participants until a later date when these participants could be properly transferred to Vermont Health Connect.

On November 13, 2015, subsequent to the state fiscal year ended June 30, 2015, the State of Vermont (the State) received a waiver from the Centers for Medicare and Medicaid Services (CMS) allowing the State to continue its process to defer the eligibility redeterminations. The waiver is back-dated to eligibility redeterminations which were required to have been performed as of October 1, 2013 and indicated that the State should complete the redetermination process as soon as practicable but no later than February 29, 2016.

As a result of the above, during the year ended June 30, 2015, the Department did not have procedures in place for reviewing participant eligibility. In order to ensure that the participants that were automatically re-enrolled into the CHIP program were eligible for CHIP benefit at the time of the last eligibility redetermination, we selected a sample of participants who had a claim paid during the year ending June 30, 2015 and noted the following:

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- A. For 10 of 40 participants selected for testwork, during the last eligibility determination the Department's benefit eligibility specialist had incorrectly calculated amount of monthly income when determining the participant's program eligibility, or did not maintain sufficient documentation used to support the eligibility determination made. As a result, we were unable to determine if the participants were eligible to receive CHIP benefits.
- B. For 4 of 40 participants selected for testwork, the participant's calculated federal poverty level (FPL) was below the FPL eligibility threshold amount for CHIP as of the date the participants were last determined eligible for CHIP benefits. As a result it does not appear that these participants were eligible to receive CHIP benefits and as a result the claims paid on behalf of these participants are not allowable.
- C. For 1 of 40 participants selected for testwork, the participant's citizenship status was not recorded in ACCESS and there was no additional information to support that the State had taken steps to ensure the participant was a citizen and therefore eligible for CHIP benefits. As a result, we were unable to determine if the participant was eligible for CHIP benefits and as a result it is unclear as to whether or not the claims paid on behalf of this participant are allowable.
- D. For 1 of 40 participants selected for testwork, the participant's Social Security number listed in the ACCESS system was not verified with the Social Security Administration. As a result, we were unable to determine if the participant was eligible for CHIP benefits and as a result it is unclear as to whether or not the claims paid on behalf of this participant are allowable.
- E. For 1 of 40 participants selected for testwork, per review of the ACCESS system (the State's benefit eligibility maintenance system) this participant was coded as a C6, or eligible for CHIP; however, this participant is actually a Katie Beckett (KB) (Medicaid) participant. The participant received CHIP benefits until June 9, 2014 when the parents applied for the participant to receive KB coverage. During the KB approval process, the participant continued to receive CHIP benefits to ensure the participant had health coverage. Once the application for KB was approved in July 2014, the coverage period of KB was back dated to March 1, 2014, the time when the renewal process for CHIP benefits began. During the period of March 2014–July 2014, there were approximately 270 claims paid and charged to the CHIP program on behalf of this participant paid totaling over \$42,000. When KB was approved, the State subsequently moved only \$600 worth of these claims from CHIP to Medicaid. The remaining \$41,400 in claims paid remained incorrectly charged to the CHIP program.
- F. For several participants within our sample selected, we noted that during the period of time that the participant was auto re-enrolled, the Department had subsequently received updated financial information for the participant that resulted a change in the income amount used to determine the participant's eligibility for CHIP. This information was either received directly from the participant or through data matches that are automatically performed by the ACCESS system such as data matches performed with the Social Security Administration or the Vermont Department of Labor. During our discussions with the Department, we noted that as the Department was not formally completing any eligibility redeterminations during the year ended June 30, 2015, the Department did not have any procedures in place to monitor these changes that could have resulted in changes in eligibility. Specifically, we noted the following:

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1. For 14 of 40 participants selected for testwork, we noted that the Department had received updated income information for the participant as documented within the ACCESS system. We noted that while the participant's calculated FPL changed, it did not appear to impact the participant's eligibility for CHIP.
2. For 4 of 40 participants selected for testwork, the change in income information resulted in a change in the participant's calculated FPL and the participant no longer appeared to be eligible for CHIP benefits and as a result it is unclear as to whether or not the claims paid on behalf of these participants are allowable.
3. For 19 of 40 participants selected for testwork, we noted that the FPL percentage used to determine eligibility for CHIP benefits had changed due to a change in federal regulations. As documented above, these changes were not reviewed by the Department to determine their impact on the participant's eligibility to receive benefits. For each of these 19 participants, it appeared that 2 of the 19 participants were not eligible for benefits due to the FPL. It was further noted, however, that these 2 participants were not eligible to receive benefits either and were also included in Bullet B above.

A similar finding was noted as part of the June 30, 2014 single audit and was reported as finding 2014-047.

#### *Cause*

The cause of the condition as noted is primarily related to the fact that the Department has auto re-enrolled participants for the CHIP program instead of performing eligibility redeterminations. As the Department was not performing any eligibility redeterminations it did not have any procedures to monitor for any reported changes in participant income that could impact a participant's eligibility status.

In addition, the also 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.

#### *Effect*

The effects of the condition found is that benefit payments could be made on behalf of participants that are not eligible for CHIP resulting in unallowable costs charged to the program.

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 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, the Department should implement procedures to ensure that if new financial information is received from participants, the Department reviews this data on a periodic basis to determine the impact on the participant's eligibility status.

#### ***Management's Response and Corrective Action Plan***

The November 13, 2015, CMS waiver letter speaks to Vermont's planned CAP which was developed with technical assistance from CMS. Vermont has resumed renewals and CHIP and Medicaid clients are transitioning from ACCESS to VHC. Clients who fail to cooperate with this transition will have their coverage closed. These CHIP cases will no longer reside in ACCESS. Instead, they will reside in the Vermont Health Connect.

Reported case changes are being captured in VHC Service Requests (SR's) and appropriate action is being taken by VHC workers.

The State relies on the pre-programmed rules engine to provide consistent eligibility determinations. As accounts are entered into the Siebel platform the rules engine completes an eligibility determination based on the information entered. During this time, the information reported by the enrollee is verified using Federal HUB and State DOL data sources. If discrepancies are detected or match cannot be made, an individual must provide manual documentation to verify outstanding items. Income must be verified prior to be enrolled in a new benefit year of coverage. The individual also receives an eligibility notice detailing the eligibility award and applicable premiums, along with a notification of their appeal rights.

#### ***Scheduled Completion Date of Corrective Action Plan***

Completion of CHIP renewals and transition from ACCESS to VHC are in progress. Projected date of completion is end of May 2016.

#### ***Contact for Corrective Action Plan:***

Anne Petrow, DVHA, (802) 879-2374  
Rob Roberts, AHS Audit Chief, (802) 241-0446

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**Finding 2015-041**

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**

05-1505VT1081      10/1/2014–9/30/2016

***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, 2015, 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

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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.

A similar finding was noted as part of the June 30, 2014 single audit and was reported as finding 2014-048.

#### *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.

#### *Effect*

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

These ACCESS issues will no longer have an impact on CHIP cases as the CHIP cases are in the final transition from the ACCESS legacy system to Vermont Health Connect (VHC). As outlined in the November 13, 2015, CMS 1902(e)(14)(A) waiver letter, Vermont has resumed CHIP renewals and these client cases are currently transitioning from ACCESS to VHC. The State relies on the pre-programmed rules engine to provide consistent eligibility determinations. As accounts are entered into the Siebel platform the rules

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engine completes an eligibility determination based on the information entered. During this time, the information reported by the enrollee is verified using Federal HUB and State DOL data sources. The individual also receives an eligibility notice detailing the eligibility award and applicable premiums, along with a notification of their appeal rights

***Scheduled Completion Date of Corrective Action Plan***

Completion of CHIP renewals and transition from ACCESS to VHC for CHIP cases is currently in progress. Projected date of completion is end of May 2016.

***Contact for Corrective Action Plan***

Anne Petrow, DVHA, (802) 879-2374

Rob Roberts, AHS Audit Chief, (802) 241-0446

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**Finding 2015-042**

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**

05-1505VT1081      10/1/2014–9/30/2016

***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 incidental 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***

Participant's determined eligible for the Children's Health Insurance Program (CHIP) are required to pay a monthly premium in the amount of \$60. During our testwork over the collection of program income by the Department for Children and Families (the Department), we noted the following:

- A. For 17 of 40 participants selected for testwork, the participant's family was paying a premium amount that was less than \$60 per month required and there was no documentation maintained within the file to support the lower premium amount. The total variance between the required \$60 monthly premium and the amount collected for the month in which the date of service was rendered for these 17 participants resulted in an uncollected premium amount of \$780.
- B. For 1 of 40 participants selected for testwork, the premium amount paid per the ACCESS system, the State of Vermont's the benefit eligibility maintenance system, did not agree to the premium billed by TD Bank (the State of Vermont's external service provider) and paid by the participant. This resulted in a variance of \$45 for the month the date of service was rendered for the claim selected for testwork.

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#### *Cause*

The cause of the condition as noted is primarily related to the fact that the Department has auto re-enrolled participants for the CHIP program instead of performing eligibility redeterminations. As the Department was not performing any eligibility redeterminations it did not have procedures to monitor for any reported changes in participant income that could impact a participant's eligibility status or need to collect a monthly premium payment from participants. In addition the Department closes and then reinstates cases without a lapse in coverage.

#### *Effect*

The effect of the condition found is that (a) premium payments may not be collected for months in which coverage was provided, (b) the State may be providing coverage to individuals who have not paid the required premiums, and (c) the State may be incorrectly collecting premiums from participants that are not eligible for benefits under this 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 procedures and implement controls to ensure that premium 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 November 13, 2015, CMS waiver letter speaks to Vermont's planned CAP which was developed with technical assistance from CMS. Vermont resumed renewals in January 2016, transitioning CHIP and Medicaid clients are transitioning from ACCESS to VHC for a MAGI determination, the State is renewing 9,000 households a month and will complete this work by May 2016. When clients report changes, action is typically taken in real-time on their account. If the change cannot be made while it is being reported, workers capture the request in the case management system and take action at a later date. Additional development is needed to bring VHC's premium processing functions into full compliance. The State is working with CMS on this development timeline and hope to complete work over the next 12 to 16 months.

The State relies on the pre-programmed rules engine to provide consistent eligibility determinations. As accounts are entered into the Siebel platform the rules engine completes an eligibility determination based on the information entered. During this time, the information reported by the enrollee is verified using Federal HUB and State DOL data sources. If discrepancies are detected or match cannot be made at

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redetermination, an individual must provide manual documentation to verify outstanding items. The individual also receives an eligibility notice detailing the eligibility award and applicable premiums, along with a notification of their appeal. Premiums are driven by rules engine determinations.

***Scheduled Completion Date of Corrective Action Plan***

Completion of CHIP renewals and transition from ACCESS to VHC are scheduled to be completed by May 2016

VHC premium defects are expected to be resolved through system changes currently in development and expected to be completed in phases in 2017.

***Contact for Corrective Action Plan***

Anne Petrow, DVHA, (802) 879-2374

Rob Roberts, AHS Audit Chief, (802) 241-0446

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**Finding 2015-043**

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	1/1/11–12/31/16
11-W-00191/6	10/1/10–9/30/15
75X0512	10/1/10–6/30/15

***Criteria***

Activities Allowed or Unallowed

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).

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

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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 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 related allowability of associated benefit payments and noted the following internal control deficiencies:

- A. For 14 of 65 participants selected for eligibility testwork, the eligibility (ASP3V0) screens in the ACCESS database for the application were not properly approved. Approved applications are denoted with a "Y" accompanied by a date, as well as a Program Benefit Specialist identification number, representing the employee's approval within the access system; these indicators were not present and therefore we were unable to determine whether the participants were properly reviewed for eligibility determination.
- B. For 12 of 65 participants selected for allowability and eligibility testwork, the individual was assigned an incorrect eligibility code within the ACCESS system based on various factors such as age and income level. As such, we were unable to verify they were eligible for Medicaid benefits.
- C. For 5 of 65 participants selected for allowability and eligibility testwork, the Medicaid participant was assigned a transitional Medicaid category code. Transitional Medicaid has 4 criteria that need to be met for each individual and in 3 instances we noted that the participant did not meet all required criteria based on the category code assigned, however should have been assigned under a different eligibility code. Further, quarterly report forms are required to be submitted for transitional Medicaid participants to document continued eligibility and for these 5 participants we noted that not all of the required reports had been provided. The quarterly review is in lieu of the annual eligibility redetermination process.
- D. For 1 of 65 participants selected for allowability and eligibility testwork, the State was unable to provide the Long Term Care (LTC) Medicaid Income Eligibility Form which is used to document eligibility under the LTC program and assigned category code.

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- E. For 4 of 65 participants selected for eligibility testwork we noted that they were coded eligible under the Katie Beckett waiver. Eligibility is based on a certified physician's statement which indicates the eligibility period and date for next eligibility review. In these 4 instances we noted that the individual was not reviewed as of the date noted in the physician's statement.
- F. For 10 of 65 participants selected for eligibility and allowability testwork, the individual was identified as a U.S. citizen within the eligibility system, ACCESS; however, their citizenship status was not supported by either a Citizenship or Identification Code or other documentation to verify citizenship as required.

A similar finding was noted as part of the June 30, 2014 single audit and was reported as finding 2014-050.

#### *Cause*

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 or adequate controls to review such information for completeness and accuracy when information is obtained.

#### *Effect*

The effect of the condition found is that the Department of Children and Families uses 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*

Health care eligibility staff have reviewed the individual sample cases. Management agrees that ten cases were in error. All cases have been corrected going forward. In addition, three cases were determined to be technical errors rather than eligibility errors: two cases have now had citizenship verified via Vermont

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Department of Health's vital statistics staff (clients were determined to have been born in Vermont); and one case had an incorrect category code assignment error (although the client was eligible for Medicaid benefits).

These case errors resulted from the inability to resource the eligibility work in three primary areas:

1) pending ACCESS citizenship verifications (the approximately 10-15% of cases which fail the BGS interface); 2) daily edits; and, 3) worker TODO's. Because of resource limitations, this work became backlogged so staff did not act upon edits which indicated SSI had ended, no QRF was received, citizenship was pending, etc. HAEU Management has reported that the daily edits and worker TODO's are now being worked routinely so these errors should be greatly improved at next audit.

The corrective action has already begun and worker dailies and edits are now caught up. In addition, staff have been assigned to resolve the edits and dailies for all other workload "buckets" (including interface and QRF edits). The department will ensure that this ACCESS work is performed in a timely manner by trained workers to reduce these errors in the future.

***Scheduled Completion Date of Corrective Plan***

June 30, 2016

***Contact for Corrective Action Plan***

Daniel R. McDevitt, DCF Audit Manager, (802) 241-0680  
Rob Roberts, AHS Audit Chief, (802) 241-0446

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**Finding 2015-044**

**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	10/1/10–6/30/15

***Criteria***

The Global Commitment to Health Section 1115 Demonstration Waiver (the Waiver), Section XIII, paragraph 68 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 2015, the State had 84 MCO investment programs resulting in \$129 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.

During our testwork over the allowability of MCO investment expenditures, we selected 16 of the 84 MCO investment programs and followed up on 10 MCO investment programs that had findings in the prior year

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and noted that although 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. Specifically, we noted the following:

Findings	
1.	<p><b>MCO Investment Program:</b> Vermont Physician Training</p> <p><b>State Fiscal Year 2015 Expenditures:</b> \$4,046,217</p> <p><b>MCO Investment Objective:</b> b – Increase the access of quality health care to uninsured, underinsured and Medicaid beneficiaries.</p>
	<p><b><i>Finding</i></b></p> <p>MCO Investments totaling \$4,046,217 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. UVM’s obligation under the agreement is to provide documentation on the number of students matriculated in all degree programs in the College of Medicine (COM), the number and types of degrees granted by the COM, the amount of funds received, the amount of COM’s expenditures, a certification that the funds received are not used for any other federal purpose and a certification that the funds are used to support the education of the matriculated students in the COM.</p> <p>During testwork we noted the following:</p> <ul style="list-style-type: none"> <li>a. UVM’s report and certification attesting to their obligations under the agreement was not received by AHS until February 4, 2016, which was 7 months after the agreement ended and 1 week after a draft finding was provided.</li> <li>b. 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. The Agency has indicated that they review UVM’s audit report however, the documentation of the review is not clear as to whether they specifically look at the how the MCO investments are reported, whether the MCO is appropriately accounted for in the audit report or whether the allowability of the MCO expenditures was tested by UVM’s auditors.</li> <li>c. 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</li> </ul>

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	<b>Findings</b>
	<p>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> <p><b><i>Management’s Response and Corrective Action</i></b></p> <ul style="list-style-type: none"><li>a. The agency agrees with this finding. It will create a procedure to ensure a more timely submission in the future.</li><li>b. AHS is confident that the certification that UVM provides is accurate and that their assertion is supported by financial records that have a Single Audit each year which AHS reviews.</li><li>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 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.</li></ul> <p><b><i>Scheduled Completion Date of Corrective Action Plan</i></b></p> <ul style="list-style-type: none"><li>a. May 1, 2016</li><li>b. and c. No further action is considered necessary.</li></ul> <p><b><i>Rejoinder</i></b></p> <ul style="list-style-type: none"><li>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.</li><li>c. AHS has not provided any documentation that supports the approval, whether express or implied, by CMS.</li></ul>

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Findings
<p>2. <b>MCO Investment Program:</b> Community Rehabilitative Care</p> <p><b>State Fiscal Year 2015 Expenditures:</b> \$2,539,161</p> <p><b>MCO Investment Objective:</b> b – Increase the access of quality health care to uninsured, underinsured and Medicaid beneficiaries.</p>
<p><b><i>Finding</i></b></p> <p>MCO Investments totaling \$2,539,161 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>
<p>During our testwork, we noted the following:</p> <ul style="list-style-type: none"> <li>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.</li> <li>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 years 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.</li> <li>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.</li> </ul> <p><b><i>Management’s Response and Corrective Action</i></b></p> <ul style="list-style-type: none"> <li>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.</li> <li>b. A study was done of the Probation &amp; 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</li> </ul>

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Findings	
	<p>primary function of the job, approximately 5 hours per day per officer is for this purpose. (5/8 equating 62%) The Department of Corrections believes that this is reasonable.</p> <p>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 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><b><i>Scheduled Completion Date of Corrective Action Plan</i></b></p> <p>No further corrective action is considered necessary.</p> <p><b><i>Rejoinder</i></b></p> <p>a. Allocation Rate—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.</p> <p>b. 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. It should be further noted that this the 6<sup>th</sup> 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>c. AHS has not provided any documentation that supports the approval, whether express or implied, by CMS.</p>
3.	<p><b>MCO Investment Program: Building Bright Futures</b></p> <p><b>State Fiscal Year 2015 Expenditures: \$514,225</b></p>

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	<p><b>MCO Investment Objective:</b> 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><b><i>Finding</i></b></p> <p>MCO Investments totaling \$514,225 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> <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). A 2012 VHHIS survey increased this percentage; however, for budgetary purposes the State has retained usage of the 41%. We were unable to obtain support for the allocation methodology and further noted that that survey results are several years old and given the reported expansions of health coverage it is uncertain as to whether this is a valid allocation amount.</p> <p><b><i>Management’s Response and Corrective Action</i></b></p> <p>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><b><i>Scheduled Completion Date of Corrective Action Plan</i></b></p> <p>No further corrective action considered necessary.</p> <p><b><i>Rejoinder</i></b></p> <p>a. Allocation Rate—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.</p>

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4.	<p><b>MCO Investment Program: Epidemiology</b></p> <p><b>State Fiscal Year 2015 Expenditures: \$872,449</b></p> <p><b>MCO Investment Objective:</b> 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><b><i>Finding</i></b></p> <p>MCO Investments totaling \$872,449 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> <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 underinsured 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. Further, we noted that that survey results are several years old and given the reported expansions of health coverage it is uncertain as to whether this is a valid allocation amount.</p> <p><b><i>Management’s Response and Corrective Action</i></b></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 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><b><i>Scheduled Completion Date of Corrective Action Plan</i></b></p> <p>No further corrective action considered necessary.</p> <p><b><i>Rejoinder</i></b></p> <p>a. Allocation Rate –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</p>

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	nor has AHS provided sufficient documentation to show that the allocation is reasonable, is a proper allocation method or that it is auditable.
5.	<p><b>MCO Investment Program:</b> Vermont Veterans Home</p> <p><b>State Fiscal Year 2015 Expenditures:</b> \$410,986</p> <p><b>MCO Investment Objective:</b> b – Increase the access of quality health care to uninsured, underinsured and Medicaid beneficiaries.</p>
	<p><b><i>Finding</i></b></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><b><i>Management’s Response and Corrective Action</i></b></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><b><i>Scheduled Completion Date of Corrective Action Plan</i></b></p> <p>No further corrective action is considered necessary.</p>

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	<p><b><i>Rejoinder</i></b></p> <p>AHS has not provided any documentation that supports the approval, whether express or implied, by CMS</p>
6.	<p><b>MCO Investment Program: Aid to the Aged, Blind, and Disabled CCL III</b></p> <p><b>State Fiscal Year 2015 Expenditures: \$2,864,727</b></p> <p><b>MCO Investment Objective: b – Increase the access of quality health care to uninsured, underinsured and Medicaid beneficiaries.</b></p>
	<p><b><i>Finding</i></b></p> <p>MCO Investments totaling \$2,864,727 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><b><i>Management’s Response and Corrective Action</i></b></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><b><i>Scheduled Completion Date of Corrective Action Plan</i></b></p> <p>No further corrective action considered necessary.</p>

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	<p><b><i>Rejoinder</i></b></p> <p>AHS has not provided any documentation that supports the approval, whether express or implied, by CMS.</p>
7.	<p><b>MCO Investment Program:</b> Vermont Information Technology</p> <p><b>State Fiscal Year 2015 Expenditures:</b> \$2,915,149</p> <p><b>MCO Investment Objective:</b> 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><b><i>Finding</i></b></p> <p>MCO investments totaling \$2,915,149 were paid to help fund the Vermont Information Technology program administered by the Department of Vermont Health Access. 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 underinsured 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 and further noted that that survey results are several years old and given the reported expansions of health coverage it is uncertain as to whether this is a valid allocation amount.</p> <p><b><i>Management’s Response and Corrective Action</i></b></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><b><i>Scheduled Completion Date of Corrective Action Plan</i></b></p> <p>No further corrective action is considered necessary.</p>

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	<p><b><i>Rejoinder</i></b></p> <p>Allocation Rate - although this rate is based on the results of a survey conducted by the Vermont Department of Finance and Regulation (FDR), 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.</p>
8.	<p><b>MCO Investment Program:</b> Vermont Blue print for Health</p> <p><b>State Fiscal Year 2015 Expenditures:</b> \$1,987,056</p> <p><b>MCO Investment Objective:</b> 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><b><i>Finding</i></b></p> <p>MCO investments totaling \$1,987,056 were paid to help fund the Vermont Blueprint for Health program administered by the Department of Vermont Health Access. 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><b><i>Management’s Response and Corrective Action</i></b></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><b><i>Scheduled Completion Date of Corrective Action Plan</i></b></p> <p>No further corrective action is considered necessary.</p>

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	<p><b><i>Rejoinder</i></b></p> <p>a. Allocation Rate—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.</p>
9.	<p><b>MCO Investment Program: Essential Persons Program</b></p> <p><b>State Fiscal Year 2015 Expenditures: \$707,316</b></p> <p><b>MCO Investment Objective: b – Increase the access of quality health care to uninsured, underinsured and Medicaid beneficiaries.</b></p>
	<p><b><i>Finding</i></b></p> <p>MCO Investments totaling \$707,316 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><b><i>Management’s Response and Corrective Action</i></b></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><b><i>Scheduled Completion Date of Corrective Action Plan</i></b></p> <p>No further corrective action is considered necessary.</p>

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	<p><b><i>Rejoinder</i></b></p> <p>AHS has not provided any documentation that supports the approval, whether express or implied, by CMS.</p>
10.	<p><b>MCO Investment Program:</b> Prevent Child Abuse Vermont</p> <p><b>State Fiscal Year 2015 Expenditures:</b> \$194,124</p> <p><b>MCO Investment Objective:</b> c – Provide public health approaches and other innovative programs to improve the health outcomes, health status and quality of life for uninsured, underinsured, and Medicaid-eligible individuals in Vermont.</p>
	<p><b><i>Finding</i></b></p> <p>MCO investments totaling \$194,124 were paid to help fund the Prevent Child Abuse – Nurturing Parent program administered by the Department for Children and Families.</p> <p>During our testwork, we noted the following:</p> <p>a. This MCO investment was funded by a 60.9% allocation of Global Commitment funds. This is an estimate of the Vermont population that is Medicaid eligible, uninsured, or underinsured 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 and further noted that that survey results are several years old and given the reported expansions of health coverage it is uncertain as to whether this is a valid allocation amount.</p> <p><b><i>Management’s Response and Corrective Action</i></b></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><b><i>Scheduled Completion Date of Corrective Action Plan</i></b></p> <p>No further corrective action is considered necessary.</p>

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	<p><b><i>Rejoinder</i></b></p> <p>Allocation Rate –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.</p>
11.	<p><b>MCO Investment Program:</b> Residential Care for Youth/Substitute Care Program</p> <p><b>State Fiscal Year 2015 Expenditures:</b> \$10,405,184</p> <p><b>MCO Investment Objective:</b> b – Increase the access of quality health care to uninsured, underinsured and Medicaid beneficiaries.</p>
	<p><b><i>Finding</i></b></p> <p>MCO investments totaling \$10,405,184 were paid to help fund the Residential Care for Youth/Substitute Care Program administered by the Department for Children and Families.</p> <p>During our testwork, we noted the following:</p> <p>A This MCO investment was funded to provide maintenance costs to allow children in residential facilities access to treatment services provided by the facility. All costs incurred under foster care and residential payments that are not covered under Medicaid or IV-E. Costs paid for under this MCO include room, board, and treatment services for children in State custody, but are not Medicaid or IV-E eligible. During our testwork over 3 residential care facilities we were unable to determine how room and board costs increased the access of quality health care to uninsured, underinsured and Medicaid beneficiaries. As such, we could not determine if these expenditures were for allowable costs.</p> <p>B Further, during our testwork over this MCO investment we noted payment to a foster parent for the emergency placement of one child who was not IVE eligible. Based on the above description, a foster parent does not meet the description of a residential facility and therefore it is unclear how they would be providing access to treatment services provided by the facility and therefore allowable under the MCO objective. Further, we were unable to determine how room and board costs increased the access of quality health care to uninsured, underinsured and Medicaid beneficiaries. As such, we could not determine if these expenditures were for allowable costs.</p> <p><b><i>Management’s Response and Corrective Action</i></b></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</p>

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	<b>Findings</b>
	<p>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. This MCO also includes cost for Foster Care as part of the Substitute Care Program that are not covered by Medicaid or IV-E. The payment to a foster parent for emergency placement falls within this program.</p> <p><b><i>Scheduled Completion Date of Corrective Action Plan</i></b></p> <p>No further corrective action is considered necessary.</p> <p><b><i>Rejoinder</i></b></p> <p>AHS has not provided any documentation that supports the approval, whether express or implied, by CMS.</p>

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, 2014 single audit and was reported as finding 2014-052.

***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.

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***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 review 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***

See individual citations.

***Scheduled Completion Date of Corrective Plan***

See individual citations.

***Contact for Corrective Action Plan***

Rob Roberts, AHS Audit Chief, (802) 241-0446

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**Finding 2015-045**

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	10/2/13–12/31/16
75X0512	10/1/10–6/30/15

***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 (SPA) 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 the Hospital.

During our testwork over these supplemental payments, we noted the following:

1. **Teaching Hospital Payment:** The State overpaid the Hospital for GME resulting in a disallowed cost. As outlined in the SPA, the teaching hospital payment is allowed for the lesser of (a) 95% of the sum of the Direct Graduate Medical Education (DGME) and Indirect Medical Education (IME) costs, or (b) the difference between the teaching hospital's "Hospital Specific Limit" and the Disproportionate Share Hospital (DSH) payment. During state fiscal year 2015, the State determined that method "a" resulted in the lesser payment; however, method "b" was actually the lower the amount and therefore an overpayment was made. The payment made under method "a" was \$5,269,883, compared to \$4,715,393 which is the allowed amount based on method "b."

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2. **Physician Teaching Payment:** A component of the GME payment made to University of Vermont Medical Center, formerly known as Fletcher Allen (the Hospital), 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 the Hospital 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 the ability to validate information submitted by the Hospital, the Department did not request or validate rates entered into this calculation by the Hospital but rather relied upon the information provided. 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.

A similar finding was noted as part of the June 30, 2014 single audit and was reported as finding 2014-054.

*Cause*

1. AHS relies on an outside consultant to calculate the allowed supplemental payments and the calculation is not reviewed for accuracy by AHS. In the prior year method “a” was the lesser amount and it was assumed that would be the case in the current year and as a result the amount under method “b” was not calculated for comparison.
2. The cause of the condition found is that AHS uses the Average Commercial Payment Rate provided by the Hospital, and does not validate information used in the calculation. Further, AHS relies on Burns & Associates to calculate the GME payment and does not takes steps to validate the calculation prepared by them.

*Effect*

1. An overpayment was made resulting in a questioned cost.
2. The information contained within the calculation could contain errors or false information resulting in an overpayment.

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***

\$313,204

Amount represents the overpayment of \$554,490 (5,269,883–\$4,715,393) multiplied by the FMAP rate in effect at the time each quarterly payment was made.

***Recommendation***

We recommend:

1. AHS implement procedures to ensure a review of teaching hospital payment calculation prepared by the consultant is done to ensure accuracy.
2. AHS review its policies and procedures for reviewing the information submitted by the Hospital used in the physician teaching payment calculation to ensure that it is complete and accurate

***Management's Response and Corrective Action Plan***

1. AHS concurs that Method 2 is the lesser of value. The hospital should have been paid \$4,715,393. This was an oversight in the process. The value of \$5,269,883 equates to the State's internal policy of capping total GME payments (to Qualified Teaching Professionals, or QTPs, and the hospital) at \$30,000,000. In state fiscal year 2015, the payment to the QTPs was \$24,730,117 so the difference from \$30,000,000 was equal to \$5,269,883.

In prior years, Method 1 was always the option selected in the lesser of test. In state fiscal year 2015, the unusual occurrence was that University of Vermont Medical Center's (UVMC's) hospital limit was much lower than in previous years. The State had actually made two DGME payments to UVMC in state fiscal year 2015 due to the delay in the approval of the SPA approved. The SPA was approved retroactively to allow the State to make payments for two years even though the payment assigned to the first year had already passed the SFY that the payment was attributed to.

Going forward, AHS/DVHA has set forth an operational protocol whereby the methodology for calculating the payments for both DGME and to qualified teaching professionals will be peer reviewed in a face-to-face meeting whereby the calculations for each payment will be reviewed by both the person making the computations and a peer reviewer in DVHA's Reimbursement Unit that is familiar with the state plan amendment methodology.

2. For the payments made in state fiscal year 2015, AHS/DVHA did request documentation of screen shots from the Hospital that showed the commercial rates paid by the top five commercial payers for the top five CPT codes that year (based on total payments). The rates reported by the Hospital were validated by DVHA staff against the screen shots submitted from the Hospital's accounting system.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2015

Beginning with the payments made in state fiscal year 2016, DVHA asked for the top 40 CPT codes based on payment for all of the top five commercial payers. These top 40 codes represent 140,646 of the 212,647 observations in the dataset and \$17,343,093 of the \$37,715,629 in eligible payments. In the state fiscal year 2016 payment, each of the 200 rates reported (40 codes \* five commercial payers) were validated by a DVHA Reimbursement staff member prior to a payment was made. Going forward, this is the process that will be conducted every year.

***Scheduled Completion Date of Corrective Plan***

Corrected with FY2016 payments

***Contact for Corrective Action Plan***

Tom Boyd, Deputy Commissioner for Health Reform, (802) 878-7808  
Rob Roberts, AHS Audit Chief, (802) 241-0446

***Rejoinder***

The documentation that was obtained from the Hospital, per Management's Response, was not provided during audit fieldwork nor were we informed that new procedures had been put in place. Additionally, supporting documentation that was later provided during the findings process included various email documentation that was unclear as what was done, by whom, what the results were, or how the documentation agreed to the spreadsheets that were provided during testwork.

**STATE OF VERMONT**  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2015

**Finding 2015-046**

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	10/1/10–6/30/15

***Criteria***

Hospital eligibility requirements for the Disproportionate Share Hospital (DSH) payments are in accordance with the Vermont Medicaid State Plan amendment 4.19-A pg 1d. However, there is a federal requirement under 42 USC 1396(r) that states in order to qualify as an eligible hospital to receive a DSH payment, the following criteria must be met, regardless of the State Plan:

- 1) No hospital may be defined or deemed as a disproportionate share hospital under a State plan under this subchapter or under subsection (b) of this section unless the hospital has at least 2 obstetricians who have staff privileges at the hospital and who have agreed to provide obstetric services to individuals who are entitled to medical assistance for such services under such State plan.
  - a. Paragraph (1) shall not apply to a hospital:
    - i. The inpatients of which are predominantly individuals under 18 years of age; or
    - ii. Which does not offer nonemergency obstetric services to the general population as of December 22, 1987.
  - b. In the case of a hospital located in a rural area (as defined for purposes of section [1395ww](#) of this title), in paragraph (1) the term “obstetrician” includes any physician with staff privileges at the hospital to perform nonemergency obstetric procedures.
- 2) No hospital may be defined or deemed as a disproportionate share hospital under a State plan under this subchapter or under subsection (b) or (e) of this section unless the hospital has a Medicaid inpatient utilization rate (as defined in subsection (b)(2) of this section) of not less than 1 percent.

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### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

#### ***Condition Found***

During our testwork over disproportionate share hospital payments we noted in State fiscal year 2015 there was a hospital in DSH Group 2 which impacts the amount of funds available to the remaining hospitals which are in group 4. A Group 2 hospital is a hospital that has a Low Income Utilization Rate (LIUR) that exceeds 25%. The information used to determine the LIUR percentage comes from the hospital providing the relevant information on a Green Mountain Care Board (GMCB) Report 5. The State is responsible for ensuring that the information used in the calculation of the DSH payment is accurate and based on the methods outlined in the State Plan; however, we noted that the State relied upon the information provided by the hospitals in the GMCB Report 5 and did not perform any procedures to validate the completeness and accuracy of the information.

#### ***Cause***

The cause of the condition found is that AHS uses the GMCB Report 5 information provided by the hospitals and does not validate information used in the calculation. Prior to state fiscal year 2015 there were no hospitals in DSH Group 2 and as such the GMCB Report 5 information did not have a direct impact on the DSH calculation.

#### ***Effect***

The information contained within the calculation could contain errors or false information, resulting in a misallocation of available funds among the eligible hospitals.

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 AHS review its policies and procedures for reviewing the information submitted by the hospitals used in the calculation to ensure that it is complete and accurate.

#### ***Management's Response and Corrective Action Plan***

It is true that DVHA relies on the Green Mountain Care Board Report 5 for some data elements that are used in the Low Income Utilization Rate calculation. This has been specified since 2009 (the report had previously been called BISHCA Report 5) and CMS was most recently notified of this when it approved DVHA's State Plan Amendment page 4-19-A, 1f on August 19, 2014.

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### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

Additionally, since the payments that were made in Federal Fiscal Year 2010, DVHA has required that each hospital complete a Hospital DSH Survey in order to be eligible for a DSH payment. Completion of the DSH Survey in and of itself does not guarantee a DSH payment; rather, it provides DVHA with the necessary information to confirm eligibility for a DSH payment.

A signed and dated signature by the hospital's CEO or CFO must attest to all data submitted on the DSH Survey. The actual attestation statement is shown below.

*The information included in this document and the attachments is true, accurate and complete to the best of my knowledge and belief. I understand that DVHA will rely on this Certification Statement at the time DVHA certifies its expenditures to the Centers for Medicare and Medicaid Services and that the hospital is responsible for reimbursing the DVHA for any monies resulting from federal recoupment due to inaccurate information provided and that any falsification or concealment of a material fact may be prosecuted under Federal and State laws.*

For convenience, DVHA supplies each hospital in its outbound survey some pre-populated values that are required in the calculations as well as the source of this data. The information from GMCB Report 5 is one of these data elements. Ultimately, however, it is incumbent upon the hospital to attest to all information supplied on the DSH Survey. An independent DSH auditor may audit each hospital.

DVHA recognizes that the assignment to the Low Income Utilization Group in state fiscal year 2015 was unusual in that it had never occurred before. Going forward, in the event that a hospital will meet the criteria for DSH group 2, DVHA will request from the hospital backup documentation to verify the values used in the formula for the calculation of the Low Income Utilization Rate to ensure the appropriateness of assignment to DSH group 2.

#### ***Scheduled Completion Date of Corrective Plan***

Corrected.

#### ***Contact for Corrective Action Plan***

Tom Boyd, Deputy Commissioner for Health Reform, (802) 878-7808  
Rob Roberts, AHS Audit Chief, (802) 241-0446

**STATE OF VERMONT**  
Schedule of Findings and Questioned Costs  
Year ended June 30, 2015

**Finding 2015-047**

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	10/1/10–6/30/15

***Criteria***

Recoveries, Refunds, and Rebates (Costs must be net of all applicable credits):

States must have a system to identify medical services that are the legal obligation of third parties, such as private health or accident insurers. Such third-party resources should be exhausted prior to paying claims with program funds. Where a third-party liability is established after the claim is paid, reimbursement from the third party should be sought (42 USC 1396K; 42 CFR sections 433.135 through 433.154).

***Condition Found***

We reviewed the State's procedures for identifying third-party liabilities and selected a sample of 25 collections from casualty cases and estate recoveries for testing. During our testwork we noted 1 instance of non-compliance related to casualty recoveries:

We noted that the amount of claims paid by Medicaid from the date of the incident to the date of the initial attorney letter, per the Business Objects Report from HP, did not agree to amount of claims paid noted in the letter to the claimants attorney. The inflated claims paid amount in the initial attorney letter was used as the base amount for which subsequent claims were later added, resulting in multiple attorney letters overstating the value of claims paid by Medicaid which could potentially result in over collecting third-party liabilities.

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### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

#### *Cause*

The cause of the condition found is an oversight by the individuals processing the questionnaires and human error on the amount which was reported as paid claims.

#### *Effect*

The State may be paying incorrect amounts based on inaccurate data being used in the payment calculations or paying for improper claims.

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 State review its policies and procedures over third-party liability claims and implement procedures to help ensure that payments are calculated and reported accurately in accordance with the State Plan and all documentation is complete and maintained.

#### *Management's Response and Corrective Action Plan*

This finding is a result of human error. The staff creating the "Medicaid Recovery Claim" letters transposed the amount of the claims incorrectly on the first demand letter dated, September 13, 2012. When additional "Medicaid Recovery Claim" letters were created the incorrect amount of the claims from the first demand letter was the basis for the subsequent letters, which compounded the error.

In this case the actual error was a total of \$30.00. The DVHA did recover 66.2% from the total settlement; however, the slight error of \$30 did not impact the member or the DVHA. As a result of this finding, the following procedural changes have been instituted when Medicaid Recovery Claim" letters are created:

1. For the initial Medicaid Recovery Claim" letters, all claim amounts are compared to the report generating the claim totals.
2. Each time an additional Medicaid Recovery Claim" letter is created all claim amounts are verified by reviewing the claim reports not the previous Medicaid Recovery Claim" letters sent.
3. Before any settlement occurs, all of the claim totals are reviewed and checked for accuracy.

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Year ended June 30, 2015

***Scheduled Completion Date of Corrective Plan***

These changes to our processes will be implemented immediately.

***Contact for Corrective Action Plan***

Debbie Austin, DVHA, Director, Coordination of-Benefits, (802) 879-5931  
Rob Roberts, AHS Audit Chief, (802) 241-0446

**STATE OF VERMONT**  
Schedule of Findings and Questioned Costs  
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**Finding 2015-048**

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	10/1/10–6/30/15

***Criteria***

Recoveries, Refunds, and Rebates (Costs must be net of all applicable credits):

Section 1927 of the Social Security Act (42 USC 1396r-8) allows states to receive rebates for drug purchases the same as other payers receive. Drug manufacturers are required to provide a listing to CMS of all covered outpatient drugs and, on a quarterly basis, are required to provide their average manufacturer's price and their best prices for each covered outpatient drug. Based on these data, CMS calculates a unit rebate amount for each drug, which it then provides to states. No later than 60 days after the end of the quarter, the state Medicaid agency must provide to manufacturers drug utilization data. Within 30 days of receipt of the utilization data from the state, the manufacturers are required to pay the rebate or provide the state with written notice of disputed items not paid because of discrepancies found.

***Condition Found***

Prior to state fiscal year 2015, the State outsourced its drug rebate processing to Catamaran and Hewlett Packard Enterprise Services (HPES). During state fiscal year 2015, effective for calendar year quarter 1, Goold Health Systems (GHS) took over the processing of drug rebates.

During our testwork over drug rebates, we noted that GHS had not migrated the drug rebate data from HP into its system and had not been able to obtain any prior rebate information from Catamaran. Thus GHS had no way of linking checks received to invoices and therefore was unable to track amounts due and were unable to rebill as necessary.

During our testwork over drug rebates, we selected a sample of 25 payments and noted the following:

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### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

- a. In 6 instances where GHS received a rebate check relating to an amount invoiced by HP, we noted that the check was not received within the required 38 days. The State allows for 8 days of mailing time in addition to the 30 days allowed per the Compliance Supplement.
- b. In 3 instances, the State was unable to provide the Drug Rebate Invoice. Therefore, we were unable to determine if the invoice was sent timely and included the proper information.
- c. In 2 instances, the invoice for drug rebates was not sent to the manufacturer within 60 days after the end of the quarter.

#### *Cause*

The cause of the condition found is that the State changed service providers for drug rebates during the year and there were issues with the data migration from the previous two service providers to the new service provider.

#### *Effect*

The State is not sending timely and accurate drug rebate invoices and is not collecting the funds within the required time frame.

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 State continue to work with GHS to ensure it obtains all the information necessary to properly track and follow up on drug rebate invoices. Further, the State should have procedures in place to monitor that GHS is fulfilling its responsibilities as noted in the contract.

#### *Management's Response and Corrective Action Plan*

Prior to the quarter ending December 31, 2014, Catamaran was the vendor who issued Supplemental Rebate invoices. SOV did not have an adequate transition plan in place under this contract, and when we negotiated a transition plan during their outgoing phase, the cost to SOV for all the rebate information was cost prohibitive. At that time, SOV made a strategic decision not to have Catamaran transition the supplemental rebate invoices, since GHS was able to recreate the SR data but not the invoices. GHS recreated the data using hard copies of the Supplemental Rebate Agreements we provided and the Quarterly CMS State Utilization file.

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Both federal and supplemental rebate invoicing has been fully transitioned to Goold Health Systems as of April 1, 2015. While the SoV was not able to get its supplemental rebate invoices, we were able to recreate the data needed from hard copies of the contracts and the CMS utilization file. The State is confident that rebate invoicing for both the federal and supplemental programs is currently compliant with federal and state guidance.

A.- Corrective Action Plan: GHS currently initiates collection efforts for labelers not making payments within thirty-eight (38) calendar days of the rebate invoice postmark date or proper submission of dispute notification forms. The 38 Day Late Notice Procedure serves to notify labelers and attempts to collect on past due rebates. All late payment notifications include a request for payment with the applicable interest. Labelers not responding within fifteen (15) business days after receiving the third late notice are considered uncooperative and GHS refers these labelers to the DVHA Rebate liaison for further action. Interest is tracked within the rebate processing application and continues to accrue until such a time as payment is received.

B. GHS on behalf of SoV recreated the Supplemental Rebate data, but not the invoices. GHS recreated the data using hard copies of the Supplemental Rebate Agreements we provided and the Quarterly CMS State Utilization file.

C.- Corrective Action Plan: GHS currently submits quarterly SR invoices no later than 60 days after the end of the quarter.

#### ***Scheduled Completion Date of Corrective Plan***

Corrected. We are confident that rebate programs are now being operated in compliance with all state and federal rebate guidance.

#### ***Contact for Corrective Action Plan***

Nancy J. Hogue, BS, Pharm.D., Director of Pharmacy Services, 802-241-0143

Rob Roberts, AHS Audit Chief, (802) 241-0446

**STATE OF VERMONT**

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

**Finding 2015-049**

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	10/1/10–6/30/15

***Criteria***

As required by the 1115 Demonstration Waiver, Global Commitment to Health (the Waiver), once the Managed Care Organization's (MCO) 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 the State; (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) uses 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

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### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

services provided to all students free of charge. The AOE collects information from each school district that 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 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 (VHHIS), which was subsequently updated in 2012.

For the year ending June 30, 2015, the AHS utilized \$4,330,985 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 underinsured based on the 2009 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 and further noted that that survey results are several years old and, given the reported expansions of health coverage, it is uncertain as to whether this is a valid allocation amount.

Based on the above, we were unable to determine whether the \$4,330,985 of school nurse expenditures used to support the state match were allowable or whether the related federal matching funds of approximately \$10 million should have been drawn down.

A similar finding was noted as part of the June 30, 2014 single audit and was reported as finding 2014-056.

#### *Cause*

The cause of the condition found is that AHS's position is that if the funds were paid as an MCO investment, then 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.

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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***

Not determinable.

***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 review 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. The Agency of Education (AOE) will review and validate the information with contracted assistance before submitting to AHS. AHS will also work with AOE 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, 2016
- b. No further action required

***Contact for Corrective Action Plan***

Rob Roberts, AHS Audit Chief 802- 241-0446

***Rejoinder***

We agree that there is no requirement for the AHS to use the highest rate. The condition found in item b above relates to not having sufficient documentation, or Federal approval, for the 60.9% rate used in the allocation. Further, the AHS not 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 2015-050**

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 (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	10/1/10–6/30/15

***Criteria***

The State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. In addition, the State must have (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials (42 CFR parts 455, 456, and 1002).

Suspected fraud should be referred to the State Medicaid Fraud Control Units (42 CFR part 1007).

The State Medicaid agency must establish and use written criteria for evaluating the appropriateness and quality of Medicaid services. The agency must have procedures for the ongoing post-payment review, on a sample basis, of the need for and the quality and timeliness of Medicaid services. The State Medicaid agency may conduct this review directly or may contract with a quality improvement organization (QIO).

***Condition Found***

The State Department of Vermont Health Access' (DVHA) Program Integrity (PI) unit, Pharmacy unit, and Clinical Operations unit conduct a program of utilization, peer review, and analysis that safeguards against unnecessary or inappropriate use of Vermont Medicaid covered services and that assesses the quality of services provided to recipients under the Medicaid program. One control under this program is the use of prior authorizations (PA) for certain health care services. The goal of PA is to assure that the proposed health service, item, or procedure meets the medical necessity criteria; that all appropriate, less-expensive alternatives have been given consideration; and the proposed service conforms to generally accepted practice parameters recognized by healthcare providers in the same or similar general specialty that typically treat or manage the diagnosis or condition. It involves a request for approval of each health service that is designated

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as requiring prior approval before the service is rendered. During our testwork over utilization, we selected a sample of 25 payments requiring prior authorizations and noted that in 4 instances the prior authorization was for the Children's Personal Care Services (CPCS) program related to an attendant care plan. The date on the initial PA had expired prior to state fiscal year 2015 and was automatically extended without review or documentation. As a result, we were unable to verify that the services-being approved were necessary and met the requirements to be approved.

#### *Cause*

The cause of the condition found is that the State did not perform the appropriate reviews over prior authorizations.

#### *Effect*

The State may be paying for services which were not necessary and met the requirements to be approved.

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 State review its policies and procedures over prior authorizations and implement procedures to ensure that services are properly approved and meet all the requirements to be approved.

#### *Management's Response and Corrective Action Plan*

Children's Personal Care Services (CPCS) has amended its 2016 Guideline rules, added a new functional evaluation tool and implemented a clinical process as corrective action plan. CPCS is confident that the issues discovered by this audit will not occur again based upon its process of reevaluating children on a yearly basis until they have received two consecutive years of the same evaluation outcome. As a short-term solution, the next steps to address these process issues will be a two-pronged approach:

- 1) Staff will engage the expertise of Hewlett Packard Enterprises (HPE) to review the data source and overall process to request reassessments.
- 2) If an error occurs, staff will grant extensions of shorter duration (approximately 3-months instead of 6) to minimize the amount of time before updated clinical information is provided.

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We are hopeful that a longer term, and more effective solution, is to be an early-adopter of the CARE Management Solutions (CMS) which should support automated options for this work.

***Scheduled Completion Date of Corrective Plan***

Update of 2016 Guideline Rules – Completed January 1, 2016

Review of data source and process with Hewlett Packard Enterprise – May 1, 2016

***Contact for Corrective Action Plan***

Jennifer Garabedian, MSA, Administrator; DVHA (802) 865-1395

Rob Roberts, AHS Audit Chief, (802) 241-0446

**STATE OF VERMONT**

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

**Finding 2015-051**

**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 (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	10/1/10–6/30/15

***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 – In addition to any programmatic eligibility criteria under E, “Eligibility for Subrecipients,” 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.
- 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.

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### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

- Subrecipient Audits – (1) Ensuring 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 (the circular is available at <http://www.whitehouse.gov/omb/circulars/a133/a133.html>) and that the required audits are completed within 9 months of the end of the subrecipient’s audit period; (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. 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.

#### ***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 defined and have traditionally been administered as grants in the State's terminology.

The May 2011 amendment to the contracting plan expanded upon the list of 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 defined 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, VISION, 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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### Schedule of Findings and Questioned Costs

Year ended June 30, 2015

#### *Findings*

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

- I. We reviewed the AHS's 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 would not 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 agreements use terminology such as grantee and grant award that is indicative of a subrecipient award and 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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### Schedule of Findings and Questioned Costs

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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 5 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 4 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 13 instances, 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 schedule of expenditures of federal awards (SEFA).
  - c. In 16 instances, the entities grant award did not contain a DUNS number/there was no documentation the DUNS was on file prior to the execution of the grant or did contain a DUNS number for the subrecipient and it was the incorrect number of digits (DUNS numbers are 9 digits) and was the incorrect number for the subrecipient.
  - d. In 14 instances, we noted that although programmatic monitoring procedures were performed over the grantees by the Department, and the documentation appeared to have been properly submitted, there was no documentation to support the State had taken steps to review the accuracy of the information in the reports or that it was in line with the deliverables and performance measures of the grant.
  - e. In 1 instance, we noted grant award was not signed by the AHS secretary. There is a signature line on the grant award for the Secretary and designated agency (DA) agreements are signed by the Secretary.
  - f. In 5 instances, we noted while the payment selected for testwork was appropriately approved as required, payments were made under the DA agreement prior to the execution of the agreement.

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

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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, 2014 audit report and was reported as finding 2014-057.

#### *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, and subrecipients may not be monitored in accordance with federal regulations.

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*

- I.
  - a. The agency agrees that the May 2011 contracting plan may be unclear and in need of updating to ensure consistency with federal regulations. The agency is aware that substance of the relationship in an agreement, rather than the form of the agreement, is more relevant for federal purposes. A revised plan will be written to acknowledge that point and to justify procurement agreements being processed through a non-contract process as allowed due to the state's focus on form.
  - b. Exhibit B, section II of the plan says that these agreements are subject to the AOA Bulletin 3.5. They are dealt with under Section IV – The Bidding Process, Part D. Exceptions and Waivers, (3) Contracting Plans. With regard to support to the substance of these agreements, the agency has developed a Sub-recipient/Procurement Determination form which lists characteristics for

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the two types of relationships. Departments now use this form to document the determination for each agreement to support the substance of the agreement. The plan addresses agreements as procurements of service defined under OMB A-133 and meet one of the listed elements. The use of elements 1 – 5 in the plan, while not describing substance of the agreements, assists the agency in limiting the number of agreements that departments can request under this exception of the contract plan.

- c. It is noted that Sole Source contracts are only one of three exceptions under Section IV – Bidding Process, Part D. and is not required to be used given the other options. The agency is choosing to use another exception to process the agreement. That exception is the approved contract plan. The agency will consider prioritizing the exceptions in a new contract plan. The current contract plan will be updated to reflect current year procedures and for clarity.

#### II.

- a. The agency and departments are now using the VISION class code 00009 for procurement payments which distinguishes them from subawards which have a code of 00001. Also, the AOA grant agreement form used for both procurement and subaward agreements adequately identifies the type of agreement with a check box. The form has line by line instructions and accommodates conditions for both types of awards.
- b. The agency agrees with this condition. It has instructed departments as to the use of correct terminology along with the usage of the new Sub-recipient/Contractor Determination form to ensure consistency. It will also emphasize this within a new AHS contract plan.
- c. The agency agrees with this condition. It instructed departments on monitoring procedures for agreements during its September 2015 Grant Issuance and Monitoring training. It will also emphasize this difference for procurement agreements within a new AHS contract plan

#### III.

- a. The state currently uses the VISION grant tracking module to track both sub-awards for federal purposes and for procurement agreements in grant form with federal funds for state purposes. The procurement agreements are currently identified by not having a box checked for A-133 requirements and not identifying federal funds. Also, these agreements now have their own class code to distinguish them from sub-awards. If possible, a request to modify the module to accommodate procurement agreements will be made so that they are more easily distinguished from sub-awards.
- b. & c. The agency agrees with these conditions. They are the result of the agency processing these agreements with the intent and belief that their relationship with the State was that of procurements in grant form (i.e. contracts) as allowed under the Agency of Administration Bulletin 3.5. The agency agrees that the agreements may have not been consistent with procurement protocol and therefore unclear as to their nature and requirements for monitoring and reporting. Going forward into FY 16, these agreements are being treated as subawards with

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a fee-for service procurement component. The Federal grant funds awarded (not to include fee-for service payments) shall be reported and monitored as required of Sub-recipient grants. The agreements will include all federal award information, be entered into the VISION grant tracking module, and undergo a determination process with supporting documentation.

- d. AHS has issued a new Grant Issuance & Monitoring Plan which covers all departments in the agency. It was effective as of July 1, 2015. A training for Uniform Guidance and the grant plan was conducted on September 2<sup>nd</sup> and 3<sup>rd</sup> 2015. The training included aspects of monitoring for sub-awards and serves as a reminder.
- e. This is the result of human error due to misunderstanding of coverage by amendments to agreements. The agency will review its procedures for signature on agreements.
- f. These are the result of human error. The agency will review its agreement and payment procedures.

***Scheduled Completion Date of Corrective Action Plan***

April 30, 2016

***Contact for Corrective Action Plan***

Rob Roberts, AHS Audit Chief, (802) 241-0446

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Schedule of Findings and Questioned Costs

Year ended June 30, 2015

**Finding 2015-052**

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 (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	10/1/10–6/30/15

***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. The Department ended its quality control (QC) review on September 30, 2013 to begin a new pilot program over the eligibility determinations made within Vermont Health Connect system, the State’s new Health Care Exchange. The first two review pilots required by CMS focused on eligibility determinations within Vermont Health Connect, and did not cover any individuals who were 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 state fiscal year (SFY) 2015. During SFY 2015 the State’s QC program did review 20 non-MAGI cases. Given that the eligibility process outside of Vermont Health Connect is manual, and the Health Connect System is still not fully functional in SFY2015, the review noted above, of 20 non-MAGI cases is not sufficient quality control review to support that eligibility determinations are properly made.

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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, 2015, 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.

A similar finding was noted as part of the June 30, 2014 single audit and was reported as finding 2014-058.

#### *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 made 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.

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***Management's Response and Corrective Action Plan***

A replacement for the ACCESS system has been significantly delayed and our IT staff cannot fix the current system due to time and resource constraints. Until then eligibility errors will be fixed when found. Therefore, manual reviews and quality control reviews will increase. Cases reported by clients and advocates are reviewed and acted upon by HAEU Management and AOPs staff. Through the redetermination process, eligibility is updated to reflect the most recent documentation and staff are working to ensure that data entered into the ACCESS system that is used to determine eligibility is accurate and properly supported with external documentation. Quality Review will be made more robust by Fiscal Year end 2017 to ensure that quality reviews conducted are sufficient in quantity and content to support proper eligibility determinations.

***Scheduled Completion Date of Corrective Action Plan***

Resuming quality control efforts – FY2017

Installation of a new eligibility system – FY2018/2019

***Contact for Corrective Action Plan***

Daniel R. McDevitt, DCF Audit Manager, (802) 241-0680

Rob Roberts, AHS Audit Chief, (802) 241-0446

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**Finding 2015-053**

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-00191/6 10/1/10–9/30/15

75X0512 10/1/10–6/30/15

***Criteria***

ADP (Automated Data Processing) Risk Analysis and System Security Review

State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. State agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR section 95.621).

***Condition Found***

The Agency of Human Services (AHS) is the designated single state Medicaid agency. Within AHS, the Department of Vermont Health Access (DVHA) has been designated as the medical assistance unit and the Department for Children and Families (DCF) is responsible for determining client eligibility (using the ACCESS system). While Medicaid eligibility is determined by the State, claims processing is performed through a combination of State and contractor systems and resources.

The CFR requirements indicate that reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. This includes a security plan, risk assessment, and security controls review document. Further, the State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation. Beginning in December 2010 AHS includes a standard contract provision in its Medicaid contracts that requires contractors and subcontractors to provide a security plan, risk assessment, and security controls review documents to support compliance

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with 45 CFR §95.621. These documents must be provided within 3 months of the start date of the contract and updated annually.

During testwork, we noted the following over the key systems being used:

- A. ACCESS is the benefit eligibility system owned and operated by the State. There was no documentation or support that any kind of security review was done for the ACCESS system during state fiscal year 2015.
- B. Medicaid Management Information System/Advanced Information Management System (MMIS/AIM) is the claims payment system owned and operated by HP, a contractor:
  - a. We noted that the State's contract with HP does contain the standard contract provision requiring the contractor to comply with 45 CFR §95.621 however AHS was unable to provide the security review and risk assessment that were required to be provided.
  - b. The State did obtain the Service Organization Control (SOC) 1 Report for HP however there was no evidence that AHS had reviewed the report or considered whether the complementary user entity controls were in place and operating effectively.
- C. RxClaim Pharmacy Management Service was the drug rebate program operated by Catamaran, Inc. for the State through December 31, 2014.
  - a. We noted that the State's contract with Catamaran did contain the standard contract provision requiring the contractor to comply with 45 CFR §95.621; however, AHS was unable to provide the security review and risk assessment that were required to be provided.
  - b. The State did obtain the Service Organization Control (SOC) 1 Report for Catamaran however there was no evidence that AHS had reviewed the report or considered whether the complementary user entity controls were in place and operating effectively. Additionally, we noted that Catamaran received a qualified opinion and there was no assessment by AHS on the impact this may have had on the State.
- D. eRebs is the drug rebate program operated by Goold for the State beginning with calendar year 2015, quarter 1.
  - a. We noted that the State's contract with Goold did contain the standard contract provision requiring the contractor to comply with 45 CFR §95.621 however AHS was unable to provide the security review and risk assessment that were required to be provided.
  - b. A SOC 1 Report will not available until spring 2016.

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#### *Cause*

The cause of the condition found appears to be due to a lack of understanding of what the federal requirements encompass and procedures needed to be in place to be in compliance.

#### *Effect*

The effect of the condition found is that, there are continuing weaknesses in the implementation in the ADP security program with respect to risk assessments.

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

#### *Questioned Costs*

None.

#### *Recommendation*

We recommend that the State review its policies and procedures over ADP security review and implement procedures to help ensure that all reviews are performed timely and properly documented.

#### *Management's Response and Corrective Action Plan*

- A. The agency agrees with the finding. DCF IT staff have a policy and security plan for ACCESS and are currently performing a security review for FY 16. Going forward, this staff will also create a biennial schedule to review ACCESS security controls, assess risk, and make changes to the security plan per the results as necessary. The reviews and plans will be reviewed by the AHS CIO when completed.
- B. The agency agrees with the finding. For FY 16 the AHS Information Security Analyst shall obtain and review the HP contractor's security plan and HP self -security review required by their contract. Going forward this procedure will be scheduled on a biennial basis. The AHS department shall be responsible for obtaining and reviewing all HP SOC reports for FY 16 and thereafter each year. They will notify the AHS Information Security Analyst of any security related issues, control issues or other IT concerns.
- C. The agency agrees with the finding. For FY 16 the AHS Information Security Analyst shall request and review the Catamaran contractor's security plan and self -security review. They will also consider the effects of the qualified opinion in the current SOC report on RxClaim Management Services drug rebate program. Going forward, Catamaran is no longer a contractor for the state and security review will not be necessary on plans for this contractor.
- D. The agency agrees with the finding. The AHS Information Security Analyst shall obtain and review the Goold contractor security plan and self -security review required by their contract for FY 16. Going forward this procedure will be scheduled on a biennial basis. The AHS department shall be responsible

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for obtaining and reviewing Goold SOC reports for FY 16 and thereafter each year. They will notify the AHS Information Security Analyst of any security related issues, control issues or other IT concerns.

***Scheduled Completion Date of Corrective Plan***

All reviews completed by June 30, 2016

***Contact for Corrective Action Plan***

Richard Dimatteo, DCF IT Deputy Director, (802) 479-5086  
Jack Green, Deputy Chief Information Security Officer, DII, (802) 828-5828  
Rob Roberts, AHS Audit Chief, (802) 241-0446

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**Finding 2015-054**

U.S. Department of Health and Human Services

**Program Name and CFDA Number**

Block Grant for Prevention and Treatment of Substance Abuse (CFDA #93.959)

**Program Award Number and Year**

2B08TI010055-14	10/1/13–9/30/15
3B08TI010055-14S1	10/1/13–9/30/15
3B08TI010055-14S2	10/1/13–9/30/15
2B08TI010055-15	10/1/14–9/30/16
3B08TI010055-15S1	10/1/14–9/30/16
3B08TI010055-15S2	10/1/14–9/30/16

***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 subrecipient's 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 25 subrecipients selected for testwork, we noted that the expense selected for testwork was for a payment related to unexpected additional costs associated with the subrecipient taking on methadone clients from a private practice that had gone out of business. This treatment, while allowable under a similar subrecipient grant with this entity, was not outlined as an allowable program under the grant selected. Due to the nature of the services being rendered, the Department of Health (the Department) indicated there was not time to make an amendment to the grant agreement to encompass these types of costs. As a result, the amount paid for these services exceeded the amount allowable under the existing grant, and as such these costs do not appear to be allowable. In addition, we noted that the existing grant did not contain programmatic monitoring guidelines to monitor the use of these funds.

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- B. For 4 of 25 subrecipients selected for testwork, we were unable to determine whether or not the Agency had a DUNS number on file for the subrecipient prior to entering into the award.
- C. For 4 of 25 subrecipients selected for testwork, grant agreements were entered in the State of Vermont's VISION grant tracking module as nonsubrecipient grants. Since they were considered contracts (or procurement grants as discussed below) and not subrecipient grants, an A-133 audit was not obtained for each of these as normally would be required for a subrecipient award.
- D. For 14 of 25 subrecipients selected for testwork, the Department did not communicate the appropriate award identifying information to the subrecipient. For 2 of 14 noted above, substance abuse expenditures were not reported on the subrecipient's schedule of expenditures of federal awards (SEFA) contained within their A-133 audit reports. We confirmed with the Department that there were expenditures paid to each of the 2 subrecipients during State fiscal year ending June 30, 2014, and as such funds should have been reported on the SEFA. This error was not caught during the review of the A-133.

#### *Cause*

The cause of the condition found is primarily that the Department considered these agreements to be procurement grants. 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 3.5 (Bulletin 3.5), *Contracting Procedures*, 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 a subaward). While the Agency considers these agreements to be procurement grants, the Agency as a whole does not have any policies or procedures in place to document its vendor and subrecipient determination process. The agreements entered into are unclear and inconsistently used. The agreements do not consistently identify the award as either a vendor or subrecipient and may contain elements of both relationships. As noted above, the Agency does not consistently code these agreements within the VISION grant tracking module (if required). Finally, the Department inconsistently performs monitoring procedures over procurement grants. In this program, we noted that the Agency performed monitoring procedures over each of these agreements.

#### *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.

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

#### *Questioned Costs*

\$68,047

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#### ***Recommendation***

We recommend that the Agency review its granting procedures to ensure that grant awards are accurately executed and that the determination of whether an arrangement is a vendor or subrecipient relationship is formalized and documented. 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***

- A. The Department acknowledges that a payment was made without a contract or grant award in place. As indicated in the Finding above, this payment was to reimburse an agency which provided essential life-saving services to patients whose previous provider had suddenly gone out of business, and no grant was negotiated at the time of the service. The Department will reduce the Department's total costs otherwise eligible for SAPT reimbursement by \$68,047 in the March, 2016 quarter. This spreadsheet entry to effect this reduction will be an easily identifiable separate item. The action will be completed by April 20, 2016.
- B. The Department does collect DUNS numbers for all grantees, both Subrecipient Grants and Procurement Grants, although for Procurement Grants the number may not be displayed on the grant award. Beginning in FY16, all grants will be Subrecipient Grants. Subrecipient Grant procedures will result in DUNS numbers being displayed on the grant award. There will be no new SAPT Procurement Grants, effective immediately.
- C. We acknowledge that the identified Procurement Grants were not entered into the VISION grant module and that A-133 audits were not obtained, consistent with Agency policies regarding Procurement Grants. Beginning in FY16, all grants will be Subrecipient Grants. Subrecipient Grant procedures will result in use of the VISION grant module. There will be no new SAPT Procurement Grants, effective immediately.
- D. We acknowledge that the Department did not communicate federal funding information to the grantees and, of those grantees, certain expenditures were not reported on the SEFA. These conditions are consistent with state practices for Procurement Grants. Beginning in FY16, all SAPT grants will be Subrecipient Grants. Subrecipient Grant procedures will result costs being reported as subrecipient expenditures on the SEFA, effective immediately.

#### ***Scheduled Completion Date of Corrective Plan***

- A. The Department's reduction of its claimable costs by \$68,047 will be accomplished by March 20, 2016.
- B. -D. The exclusive use of Subrecipient rather than Procurement Grants has been accomplished prior to October 1, 2015.

#### ***Contact for Corrective Action Plan***

Rob Roberts, AHS Audit Chief, (802) 241-0446

**STATE OF VERMONT**

Schedule of Findings and Questioned Costs

Year ended June 30, 2015

**Finding 2015-055**

U.S. Department of Homeland Security

**Program Name and CFDA Number**

Homeland Security Grant Program (CFDA #97.067)

**Program Award Number and Year**

EMW-2011-SS-00038	9/1/2011–08/31/2014
EMW-2012-SS-00013	9/1/2012–08/31/2014
EMW-2013-SS-00063	9/1/2013–08/31/2015
EMW-2014-22-00020	9/1/2014–08/31/2016

***Criteria***

Title to equipment acquired by a nonfederal entity with federal awards vests with the nonfederal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit. However, consistent with a nonfederal entity’s policy, lower limits may be established.

A state shall use, manage, and dispose of equipment acquired under a federal grant in accordance with state laws and procedures. Subrecipients of states who are local governments or Indian tribes shall use state laws and procedures for equipment acquired under a subgrant from a state.

***Condition Found***

During our testwork over equipment management at the Vermont Department of Public Safety (the Department), we noted the Department does not appear to have clearly established policies and procedures around the inventory and equipment management process (including the purchase of equipment, record keeping, and disposals). Per review of the Department’s prepared Asset Inventory Report from June 2015, we noted the report indicated a number of issues related to the inventory count that had been performed by the Department, including the following:

- A. The Department ran an asset query report from VISION (the State of Vermont’s centralized accounting system) in order to complete an inventory count as of June 30, 2015. The asset query report was sent to each applicable location where the inventory was located so that a physical count and observation could be performed. The Department noted in its report, that the count was approximated to be 50% accurate as many locations did not actually count or locate the inventory within their location as they should have been able to.
- B. The Department indicated the VISION asset query report was likely inaccurate as it appeared to include duplicate items and items which likely no longer exist but there was insufficient documentation to

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support the disposal of item. In addition, there were currently are no policies or procedures in place to deal with these issues.

In addition to the above items noted by the Department, we noted that 4 of the 9 items selected for testwork over disposals during fiscal year 2015, were assets that had previously been disposed of in prior years but were still recorded in VISION. The Department staff went through the asset listing during state fiscal year 2015 to remove any items which appeared to be in the system in error.

#### *Cause*

The cause of the condition found is primarily due to insufficient policies, procedures, and internal controls to ensure that all equipment purchases and disposals are properly documented and accounted for within the VISION system.

#### *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.

#### *Recommendation*

We recommend that the Department develop written procedures and establish internal controls to ensure that all equipment purchases and disposals are properly documented and recorded within the VISION system and in accordance with State of Vermont VISION Procedure #1, Asset Management Procedure, which provides guidance on how to manage assets in the Asset Management module within VISION, including instructions on how to dispose of assets and perform an annual inventory. The accuracy of the VISION system should be validated by performing a physical inventory observation annually in accordance with State policy.

#### *Management's Response and Corrective Action Plan*

DPS acknowledges that we need to make improvements in our asset inventory management. The nature of our department (many remote locations including multiple with geographical challenges i.e. mountain tops) makes this extremely challenging given the resources at our disposal. There are only two employees in administration that are dedicated to procurement, contract and asset management, so this is largely a staffing/resource issue. In order to improve this process a few years ago we decided to contract with an inventory firm to assist with correcting records and processes. An RFP was posted on June 23, 2015. A vendor has been selected and a contract is currently under development.

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*Scheduled Completion Date of Corrective Action Plan*

December 2016

*Contact for Corrective Action Plan*

Joanne Chadwick, Director of Administration (802) 241-5496

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**Finding 2015-056**

U.S. Department of Homeland Security

**Program Name and CFDA Number**

Homeland Security Grant Program (CFDA #97.067)

**Program Award Number and Year**

EMW-2011-SS-00038	9/1/2011–8/31/2014
EMW-2012-SS-00013	9/1/2012–8/31/2014
EMW-2013-SS-00063	9/1/2013–8/31/2015
EMW-2014-22-00020	9/1/2014–8/31/2016

***Criteria***

The SF-425, *Federal Financial Report*, is required to be filed on a quarterly basis.

Nonfederal entities shall liquidate all obligations incurred under the award not later than 90 days after the end of the funding period.

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

***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 6 SF-425 federal financial reports selected for testwork, we noted a recipient share (or the Department's required matching funds) was reported by the Department on the federal report. Per review of the federal grant award document, there is no recipient or matching share for this federal grant. While the report was reviewed and approved prior to submission, the error was not caught.
- B. For 1 of 6 SF-425 federal financial reports selected for testwork, we noted the cash receipts and disbursements reported on the federal report did not agree to the financial documentation used to prepare the report, resulting in a reporting variance of \$10,000 for both cash receipts and disbursements. While the report was reviewed and approved prior to submission, the error was not caught.

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- C. For 1 of 6 SF-425 federal financial reports selected for testwork, we noted the supporting documentation for the indirect costs did not agree the indirect cost amount reported within the federal report. While the report was reviewed and approved prior to submission, the error was not caught.
- D. For 2 of 6 SF-425 federal financial reports selected for testwork, we noted funds expended under the program were moved or paid subsequent to the 90-day liquidation period.
- E. For 2 of 6 SF-425 federal financial reports selected for testwork, we noted that there was no evidence the first level of review had been completed prior to the Unit Director signing the reports indicating they should be submitted, as required by the Department's policies and procedures.
- F. For 2 of 6 SF-425 federal financial reports selected for testwork, we noted the initial review and approval of the reports as indicated on the SF-425 was seven days after the report was already submitted.

A similar finding was included in the prior year Single Audit Report and was reported as finding 2014-060.

***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 federal reports were not filed accurately. In addition, funds were allocated to the program in preparation of the final close out report that were incurred subsequent to the liquidation period of the grant.

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 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. This review should also ensure that funds are not charged to the federal program subsequent to the grant's 90-day liquidation period.

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***Management's Response and Corrective Action Plan***

A: The match was reported because the financial administrator relied on a match spreadsheet prepared by grant managers. This match spreadsheet had an error that has now been corrected.

B: We agree that a number was transposed causing a \$10,000 reporting error. We find our procedures and review are adequate. A financial administrator prepares the 425 report and responsible manager reviews. The reporting error was fixed in the next quarter 425.

C: The financial manager reported an estimated indirect amount and not the actual indirect expense. The reporting error was fixed in the next quarter 425 according to the Modified Total Direct Cost (MTDC) form.

D: DPS reached out to the federal program contact to inform them of this reporting error. They have requested and we supplied her with all documentation on this transaction. The financial manager at the time was following similar extension request processes for other federal agencies. The federal contact has given us direction on extension requests for the U.S. Department of Homeland Security and stated that they will not require any further action from our office. We will follow these procedures going forward.

E: We acknowledge that our division did not have a written procedure on developing and reviewing 425 reports. We have drafted a procedure that will be completed by June 30, 2016.

F: Quarterly reports are entered in an online federal portal. There is not a way to save and print prior to submission. The report is submitted then printed for the manager to review and sign. We acknowledge that our division did not have a written procedure on developing and reviewing 425 reports. We have drafted a procedure that will be completed by June 30, 2016.

***Scheduled Completion Date of Corrective Action Plan***

June 30, 2016

***Contact for Corrective Action Plan***

Joanne Chadwick, Director of Administration (802) 241-5496

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**Finding 2015-057**

U.S. Department of Homeland Security

**Program Name and CFDA Number**

Homeland Security Grant Program (CFDA #97.067)

**Program Award Number and Year**

EMW-2011-SS-00038	9/1/2011–8/31/2014
EMW-2012-SS-00013	9/1/2012–8/31/2014
EMW-2013-SS-00063	9/1/2013–8/31/2015
EMW-2014-22-00020	9/1/2014–8/31/2016

***Criteria***

A primary pass-through entity is required to perform monitoring over 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***

During our testwork over subrecipient monitoring at the Vermont Department of Public Safety (the Department), we noted the Department has a monitoring policy that requires it to perform a programmatic monitoring visit for subrecipients. We noted that during the year ended June 30, 2015 there were no programmatic monitoring visits performed over the Homeland Security subgrants entered into by the Department.

***Cause***

The cause of the condition found is primarily due to changes in 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.

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

***Questioned Costs***

None.

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***Recommendation***

We recommend that the Department review its subrecipient monitoring procedures to ensure that sufficient and timely monitoring is performed during the award periods.

***Management's Response and Corrective Action Plan***

Public Safety had a vacancy in the position responsible for programmatic monitoring most of fiscal year 2015. From July 2014 to January 2015, the employee was concentrating on completing several monitoring visits that were initiated in the previous year. In January 2015 this employee moved to the planning section of the Division of Emergency Management and Homeland Security (DEMHS). We are currently recruiting a new position in DEMHS to perform programmatic monitoring.

***Scheduled Completion Date of Corrective Action Plan***

Recruitment should be complete February 2016 and training should be complete 6 months after the start date of the recruit.

***Contact for Corrective Action Plan***

Jessica Stolz, Homeland Security Chief (802) 241-5094

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**Finding 2015-058**

U.S. Department of Homeland Security

**Program Name and CFDA Number**

Homeland Security Grant Program (CFDA #97.067)

**Program Award Number and Year**

EMW-2011-SS-00038	9/1/2011–8/31/2014
EMW-2012-SS-00013	9/1/2012–8/31/2014
EMW-2013-SS-00063	9/1/2013–8/31/2015
EMW-2014-22-00020	9/1/2014–8/31/2016

***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 45 days after the date of the grant award for all 15 of the subgrants selected for testwork as required by federal regulations. As a result, we were unable to conclude that the Department was in compliance with the above-stated criteria.

A similar finding was included in the prior year Single Audit Report and was reported as finding 2014-063 on page 224.

***Cause***

The cause of the condition found is primarily due to the fact that the procedures in place by the Department at the time the subgrants were issued 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.

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#### *Effect*

The effect of the condition found is that the Department may not be obligating Homeland Security Grant Program funds within the obligation period.

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 evidence of the commitment, and the award terms are communicated to the subgrantee and, if applicable, accepted by the grantee with the 45-day obligation period.

#### *Management's Response and Corrective Action Plan*

In early SFY 2016, the Department implemented a new process to ensure that the 45-day obligation period is being met. This process includes utilizing data gathered in the *Threats, Hazards, Inventory and Risk Assessment* and the *State Preparedness Report* to assist in determining funding priorities for SHSGP for the coming year. SHSGP Working Groups develop Requests for Proposals, which are released to state and local response agencies. Agencies then complete and submit applications to DEMHS, which are then reviewed and tentatively approved. The SHSGP application to FEMA is then built upon those approvals and submitted for funding. Once the official award is received from FEMA, subrecipient agreements are provided to those who had previous tentative approval. Utilizing this new process, we believe we are now in compliance with the 45-day obligation period requirement.

#### *Scheduled Completion Date of Corrective Action Plan*

Completed. We will continue to utilize our new process and to refine it annually.

#### *Contact for Corrective Action Plan*

Jessica Stolz, Homeland Security Chief, (802) 241-5094