



Vermont State Auditor

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31 January 2017

2017 STRATEGIC PLAN  
and  
2016 PERFORMANCE REPORT

**Douglas R. Hoffer**  
**Vermont State Auditor**

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## OVERVIEW

The purpose of this document is to describe the mission of the office, the goals and objectives that flow from the mission, and the performance measures used to evaluate our progress. The report is required by the Legislature [32 VSA §307(c)] and we are pleased to fulfill our obligation.

The goals, measures, and targets in this document were developed by the management team in the State Auditor's Office (SAO). In doing so, we considered the SAO's mission and guiding principles and conducted research on how other federal and state audit organizations measure performance. Targets were developed based on expected budgetary resources and reflect management's prioritization of those resources.

We review the strategic plan annually and make changes as needed (with explanations of any changes).

The performance report summarizes the extent to which we achieved the targets in our strategic plan for each goal and measure for calendar year 2016.

The SAO website ([www.auditor.vermont.gov](http://www.auditor.vermont.gov)) contains an electronic version of this document, as well as reports that we reference here, budget documents, and other information about the operation of the office. Paper copies of this document can also be requested from our office. I invite you to call or email me if you have any questions.

Sincerely,



Doug Hoffer

# 2017 STRATEGIC PLAN

**Mission Statement:** The mission of the Auditor’s Office is to hold state government accountable and to ensure that taxpayer funds are used effectively and efficiently. And in all of our work, we seek to identify and prevent waste, fraud, and abuse.

**Guiding Values:** The Vermont State Auditor’s Office is dedicated to providing government entities, the Vermont Legislature, and the public with professional audit services that are:

- Useful
- Timely
- Accurate
- Objective
- Of high quality; and
- Performed in conformance with generally accepted government auditing standards.

In addition, the Office is committed to improving the professional skills of the staff, sharing knowledge with others, and maintaining a work environment that is ethical, supportive, respectful, collaborative, and productive.

## Office Profile:

Statutory Responsibilities: The state auditor is a constitutional officer, elected biennially. The auditor’s principal duties are defined by 32 VSA §163, 167, and 168. These duties include:

- annual audit of the state’s financial statements - Comprehensive Annual Financial Report (CAFR);
- annual federal Single Audit (A-133);<sup>1</sup>
- discretionary governmental audits, as defined by the U.S. Government Accountability Office;
- discretionary post-audits of all expenditures, including disbursements to a municipality, school, supervisory union, school district, or court; and
- audits or reviews as statutorily required by the Legislature.

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<sup>1</sup> The federal Single Audit Act requires states, local governments, and non-profit organizations expending over \$750,000 in federal awards in a year to obtain an audit. A single audit consists of (1) an audit and opinions on the fair presentation of the financial statements and the Schedule of Expenditures of Federal Awards; (2) gaining an understanding of and testing internal control over financial reporting and the entity’s compliance with laws, regulations, and contract or grant provisions that have a direct and material effect on certain federal programs (i.e., the program requirements); and (3) an audit and an opinion on compliance with applicable program requirements for certain federal programs.

Vermont taxpayers expect state government to provide cost-effective services. It is the job of the SAO to determine if publicly-funded programs are operating efficiently and meeting the goals and objectives established by the legislature. We do this by conducting performance audits. In the process, the SAO is always alert to the risks of waste, fraud, and abuse.

The SAO no longer conducts the statutorily mandated financial audits. The audit of the state's financial statements (CAFR) and the federal Single Audit (A-133) are now conducted by KPMG under contract to the SAO. That leaves us free to focus almost exclusively on performance audits, which provide objective analysis and recommendations to 1) program managers to help improve service delivery; 2) policy makers to better inform decisions about resource allocation; and 3) the general public, which has a right to know if taxpayer funds are being used effectively.

In addition to performance auditing, we have other responsibilities. For example, we work with KPMG and state government entities to reduce findings in the federally mandated Single Audit. This will improve the state's implementation of federal programs and reduce the cost of auditing the programs.<sup>2</sup>

In addition, our office will conduct reviews of certain aspects of state government. The decision to research a particular issue is made by the State Auditor. These non-audit inquiries will be rigorous and well-documented but need not meet generally accepted government auditing standards. In some cases, reviews may lead to or complement performance audits.

Staffing: The SAO is authorized to have 15 staff positions, including the State Auditor, three appointees (Deputy State Auditor, special investigator, and private secretary), a financial manager, and 10 professional audit staff.

All ten members of the audit staff have bachelor's degrees and six have master's degrees. In addition, nine of the ten audit staff members have certifications in one or more professional areas, including Certified Public Accountant, Certified Internal Auditor, and Certified Information Systems Auditor.

Funding: Only 11% of funding for the SAO comes directly from the State's General Fund (dropping to 10% in FY18). Almost all the rest comes from the Single Audit Revolving Fund (SARF). Most state agencies and departments contribute to the SARF based on a formula reflecting their expenditures,

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<sup>2</sup> Office of Management and Budget (OMB) regulations require states to re-audit programs that have findings. Each additional audit of FY17 findings will cost \$37,800 in FY18.

revenues, and federal funding. For the current fiscal year (2017), the Legislature appropriated \$3.84 million to fund the SAO, including \$3.37 million from the SARF, \$418,307 from the General Fund, and \$53,145 from the Special Fund.<sup>3</sup>

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## **GOAL 1: PROMOTE GOVERNMENT ACCOUNTABILITY AND IMPROVE THE EFFICIENCY AND EFFECTIVENESS OF STATE GOVERNMENT THROUGH PERFORMANCE AUDITS AND REVIEWS**

### **Measure 1a: Number of performance audit reports issued**

Purpose: Performance audits identify opportunities for improvements in program delivery, as well as potential savings or cost recovery.<sup>4</sup>

Target: Performance audits vary in scope and complexity so the number of audits completed in a given year will also vary. In addition, the timing of audit engagements will sometimes result in audits being initiated in one year and completed in the next, so this may lead to variances from year to year. Therefore, annual targets are based on the sum of completed audits and the fractions of audits underway but not yet completed.

- CY 2017 – 6 performance audits

#### Strategies:

- Continue to improve risk assessments and audit planning to avoid surprises regarding data availability or other issues that may increase the time required to complete an audit.
- Continue to define audit objectives as narrowly as possible to provide meaningful recommendations while avoiding scope drift.
- Work with staff to improve writing skills to reduce time devoted to editing.
- Improve internal procedures for reviewing draft reports.

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<sup>3</sup> The Special Fund is funded by the Treasurer's Office and has been a portion of SAO's appropriation since FY2000. In the years prior to that, the SAO received an appropriation of a similar amount from the Retirement Trust Fund.

<sup>4</sup> Cost recovery can be based on a contractual or statutory provision allowing the state to recover money from beneficiaries for failures to meet performance obligations (i.e., contractors, grantees, or recipients of tax incentives).

Challenges: We had a very productive 2016 but have two challenges ahead, which we discuss in detail in the performance report below. Some of the factors that can affect the number of performance audits completed each year include the complexity of the audit topics, the number of entities involved, the availability of data,<sup>5</sup> and the timeliness and content of management responses to audit findings.<sup>6</sup>

### **Measure 1b: Average cost of performance audits**

Purpose: The SAO has limited staff and modest funding. Therefore, it is imperative that we maximize the value of our available resources. As noted above, performance audits vary in their scope and complexity but the average cost per audit is a fair measure of our ability to manage our resources.

Target:

- CY 2017 - \$225,000

Strategies: The strategies outlined above in Measure 1.a. are also relevant here.

- Try to improve risk assessments and audit planning to avoid surprises regarding data availability or other issues that may tend to increase the time required to complete an audit.
- Continue to define audit objectives as narrowly as possible to provide meaningful recommendations while avoiding scope drift.
- Work with staff to improve writing skills in order to reduce time devoted to editing.
- Improve internal procedures for reviewing draft reports.

Challenges:

While the cost per audit is a useful measure, concerns about efficiency cannot compromise the integrity of the audit process. Technically, there are no shortcuts; we must adhere to generally accepted government auditing standards as issued by the Comptroller General of the United States and the U.S. Government Accountability Office (see our Professional Standards Manual on the website).

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<sup>5</sup> For a variety of reasons, obtaining data from state entities and vendors can sometimes take more time than anticipated.

<sup>6</sup> Draft audit reports are shared with auditees who are given two weeks to respond to the findings. Their responses are included in the audit report as appendices, and the SAO may comment on issues raised in the management response. It is not uncommon for management responses to be late, which delays the completion of the audit. Moreover, some management comments require additional work by audit staff in order to correct the report, or to defend a finding in response to a challenge by the auditee.

## **Measure 1c: Value of identified savings or cost recovery**

Purpose: In some cases, a performance audit will identify actual or potential savings or opportunities for cost recovery from contractors, grantees, or beneficiaries of incentive programs.<sup>7</sup> Although not the only measure of the value of performance audits, savings are sometimes quantifiable. However, it is impossible to forecast such savings because we don't always know in advance what audits will be performed and, in any case, savings cannot be predicted before actually conducting the audits. Therefore, we will report savings and cost recoveries in the performance report but will not set targets.

Note that not all audits will result in quantifiable savings. For example, the 2015 audit of the Vermont Department of Labor's (VDOL) efforts to deter and detect worker misclassification efforts and enforce related violations was not a claims audit *per se*, although we tried to quantify results. However, we found that 1) VDOL failed to enforce unemployment insurance (UI) penalties for worker misclassification, 2) the Department's UI audit selection criteria were not optimal, and 3) internal recordkeeping was flawed. For all those reasons, we could not reliably estimate the amount of lost or foregone revenue.

Target: NA

Strategy: In choosing audit topics, we will focus on those programs and entities that have a high operational or financial risk to the state, have had performance problems in the past, have never been subject to a performance audit, or are currently alleged to have operational and/or financial problems.

Challenges: None

## **Measure 1d: Percentage of audit recommendations implemented within one year and three years**

Purpose: The SAO makes recommendations designed to improve the operations of state government. For our work to produce benefits, state entities and/or the General Assembly must implement these recommendations. The greater the number of recommendations implemented, the more benefit will be

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<sup>7</sup> The audit of Correct Care Solutions (CCS), which provides health services in Vermont prisons, found that the state had not taken advantage of a drug reimbursement provision in the contract for unused prescription drugs. After adopting our recommendation, the Department of Corrections was reimbursed for \$450,000 in 15 months.

achieved from our audit work. We have no power to compel state entities to implement our recommendations, but a measure of the quality and persuasiveness of our audits is the extent to which our recommendations are acted upon. Experience has shown that it takes time for some recommendations to be implemented. At present, we track recommendations after two and four years. We plan to ask the legislature to eliminate the timing of the follow-up and leave it to our discretion. As of this year, we are instituting a review after one and three years, instead of two and four.

Targets:

Percent of recommendations implemented within one year – 50%

Percent of recommendations implemented within three years – 75%

Strategy: Annually review state entity corrective actions in response to audit recommendations.

Recommendation follow-up will be performed for audit reports issued one and three years prior to the calendar year (e.g., the follow up in the 2016 performance report below is for audits issued in calendar years 2013 and 2015).

Challenges: Absent any authority to compel implementation, we have no direct control over this outcome measure.

**Measure 1e: Number, potential savings, and outcomes from non-audit inquiries**

Purpose: As noted above, the SAO conducts non-audit inquiries in addition to performance audits.

These investigations are intended to achieve the same goals as performance audits; namely, to identify opportunities to improve service delivery and save money.

Targets: As with performance audits, we cannot predict savings but we will report potential savings or cost recoveries identified through non-audit inquiries.

Targets:

Number of non-audit inquiries

CY 2017 – 6

Value of identified savings or cost-recovery – NA

Outcomes – NA



Strategies: The special investigator (SI) reports directly to the State Auditor and works closely with the Deputy Auditor as well. In addition, both audit and non-audit staff will provide occasional assistance in the execution of non-audit inquiries.

Challenges: None.

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## **GOAL 2: COMPLETE MANDATED FINANCIAL AUDITS ON SCHEDULE**

The financial audit must be completed by December 31<sup>st</sup> (CAFR<sup>8</sup>) and the federal compliance audit by March 31<sup>st</sup> (Single Audit<sup>9</sup>). The Commissioner of the Department of Finance & Management prepares the financial statements, which are audited by KPMG (under contract to the SAO), and KPMG also conducts the Single Audit.

### **Measure 2a: Complete the CAFR and Single Audit by statutory deadlines**

Purpose: Although the SAO no longer conducts the CAFR and Single Audits, we work with KPMG to help ensure that these audits are completed on time.

Target

FY 2017 – Both audits on time

Strategy: Actively monitor the process through weekly status meetings with staff from KPMG and the Department of Finance & Management.

Challenges: Meeting the targets is dependent on KPMG and the state's financial management team, as well as major departments, which are sometimes late in providing the necessary information to the Department of Finance & Management.

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<sup>8</sup> 32 VSA §182(a)(8)

<sup>9</sup> Paragraph .320(a) of OMB Circular A-133

## **Measure 2b: Number of repeat Single Audit findings**

Purpose: Under a contract with the SAO, KPMG annually audits selected state entities to determine if they comply with federal requirements in a variety of control areas, such as program eligibility and cash management. Given the wide scope of this audit and the numerous federal requirements that are checked for compliance, it is not unreasonable for the state to have Single Audit findings. However, state entities should work hard to minimize the number of findings, and especially repeat findings, in order to comply with federal requirements and reduce future audit costs.<sup>10</sup> The SAO cannot compel state entities to implement the Single Audit recommendations, but we can report the number of repeat findings and track changes over time. In addition, we will continue to work with the parties to emphasize the importance of avoiding repeat findings. Although history provides some guidance as to the frequency of repeat audit findings, we will not set targets as they are beyond our control.

Targets: NA

Strategy: We will work with KPMG to provide guidance to state entities on how to fix repeat audit findings.

Challenges: There is no penalty for not implementing Single Audit recommendations. In some cases, the cost of implementing the recommendations could exceed the cost of the resulting re-audits (\$37,800), which is a disincentive to curing the problem.

## **Measure 2c: Number of Single Audit re-audits<sup>11</sup>**

Purpose: A significant driver of the cost of the Single Audit is the number of programs that have to be audited. According to rules established by the federal Office of Management and Budget, some programs must be audited every year, such as Medicaid. Other programs are audited once every three years if they meet certain dollar thresholds. Programs with audit findings in the prior year must be audited and these are termed “re-audits.” The SAO has no direct means of influencing this measure so we will track and report the number of re-audits but will not set targets.

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<sup>10</sup> OMB rules mandate a re-audit for any programs with findings of material weakness in the previous year.

<sup>11</sup> We do not include Medicaid in this measure because the federal Department of Health and Human Services has designated this program as high risk and requires that Medicaid be audited every year regardless of whether there are findings in the prior year’s audit.

Targets: NA

Strategy: Provide guidance to state organizations on how to minimize future re-audits and charge the offending organization the full cost of any re-audits.

Challenges: See Measure 2b Challenges above.

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### **GOAL 3: NON-AUDIT SERVICES**

#### **Measure 3a: Number, type and outcomes of inquiries from legislators, municipalities, whistleblowers, and others**

Purpose: The SAO regularly receives inquiries from various parties, as well as comments, allegations and audit suggestions from whistleblowers. We respond to all such communications and provide information, technical assistance, and referrals as needed. The SAO cannot predict the number of such communications but we can track them by type and outcome.

Targets: NA

Strategy: Respond promptly to all inquiries and requests for information.

Challenges: Time-consuming but a valued service to Vermonters.

#### **Measure 3b: Satisfaction levels of those attending trainings supported by the SAO**

Purpose: The SAO occasionally co-sponsors trainings for professionals from municipalities, schools, and the private sector. In order to gauge the usefulness of the training, we ask participants to evaluate the presenters and the presentations and tell us whether the information provided was clear and beneficial.

Targets:

2017 - 85% high satisfaction<sup>12</sup>

Strategy: Seek input from state and local government entities, including sheriffs, on the type of training needed that would improve financial competence across the state. Work with other entities, such as the Vermont League of Cities and Towns, to sponsor relevant and timely training opportunities by expert presenters. Obtain evaluations of SAO-sponsored training from participants.

Challenges: Attendance is a mixed bag including town clerks, town treasurers, school officials, private sector auditors [seeking continuing professional education (CPE) credits] and others. While some subjects are of interest to all, others are not. And if the subject is too generic, it will not be as useful as more focused topics, and may not satisfy the requirements for CPE credits. In addition to getting good presenters / panelists, our continuing challenge is to plan sessions that will meet the needs of a diverse audience.

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<sup>12</sup> Survey respondents report satisfaction on a five-point scale. High satisfaction is defined as scores of four and above.

# CALENDAR YEAR 2016 PERFORMANCE REPORT

## Goal 1: Promote government accountability and improve the efficiency and effectiveness of state government through performance audits and reviews

| Goal | Performance Measure   | Target   | CY 2016 Actual |
|------|---|--|----------------|
| 1.a. | Number of performance audits  | 6  | 6              |
| 1.b. | Average cost per completed audit  | \$250,000  | \$177,443      |
| 1.c. | Value of potential savings or cost recovery   |  |                |
|      | i. Judiciary: Collection of Public Defender Fees  | System is ineffective. Judiciary collected less than a third of assessed fees from 2012 – 2014.  |                |
|      | ii. Agency of Education: Equalized Pupil Calculations   | Audit addressed program monitoring and oversight, not costs.   |                |
|      | iii. Department of Taxes: Collections   | Department collected about half of 2013 and 2014 delinquent personal income taxes, but could not assess effectiveness of its collection methods. |                |
|      | iv. State Employee Performance Evaluations: Departments of Finance & Management, Human Resources, and Information & Innovation. | Audit addressed departmental compliance, not costs.  |                |
|      | v. Department for Children and Families: Beneficiary Fraud  | Alleged beneficiary fraud investigated, but improper payments not effectively collected.   |                |
|      | vi. Department of Vermont Health Access – Oversight of the Vermont Information Technology Leaders (VITL):                       | Audit addressed contractual monitoring and oversight, not costs.   |                |
|      | vii. Vermont’s Self-Funded Web Portal: Department of Information & Innovation   | Audit addressed contractual monitoring and oversight, not costs.   |                |
| 1.d. | Percent of recommendations implemented – table on p.14  |  |                |

**Comments:**

|      |  |
|------|--|
| 1.a. | The number of audits reported includes portions of those initiated in 2015 but completed in 2016, as well as audits initiated in 2016 but not yet completed. We count only the percent of each conducted in 2016.                                    |
| 1.b. | The cost of performance audits varied considerably. The range was from \$88,660 to \$256,000. This reflects the substantial differences in scope and the fact that some audits involve multiple departments or agencies, which complicates the work. |

**Goal 1: Continued**

| Goal | Performance Measure  | Target  | CY 2016 Actual |
|------|--|---|----------------|
| 1.e. | Number of completed non-audit inquiries                                      | 3   | 3              |
| 1.f. | Summary and value of potential savings or cost recovery as appropriate       |   |                |
|      | i. Department of Labor: Unemployment Insurance employer field audit function | Worker misclassification determinations were documented in an ad hoc manner with limited or no supporting evidence. |                |
|      | ii. Departments of Public Safety and Transportation: Contract management     | Whistleblower allegations unsubstantiated, but other irregularities were observed.                                  |                |
|      | iii. Health Care Price Transparency Part II: Act 54 and Beyond               | Progress made, but more work remains.   |                |

**1.d. Percent of recommendations implemented**

| 2013                                | Short Title   | # of Recs. | # of Recs. Partially or Fully Implemented | Three-year Target | Actual     |
|-------------------------------------|---|------------|---|-------------------|------------|
| 13-03                               | AOT Construction Contract – Bennington                          | 19         | 5   | 75%               | 56%        |
| 13-04                               | AOT Construction Contract – New Haven                           | 9          | 6   |                   | 67%        |
| 13-05                               | Worker’s Compensation Program (State)                           | 9          | 8   |                   | 89%        |
| 13-06                               | Correctional Health Care  | 5          | 5   |                   | 100%       |
| 13-07                               | State Issued Cell Phones – ANR, AOA, AOT, BGS, DII, DCF and DPS | 15         | 10  |                   | 67%        |
| <b>Total 2013 – Three Years Out</b> |   | <b>57</b>  | <b>34</b>                                 | <b>75%</b>        | <b>60%</b> |

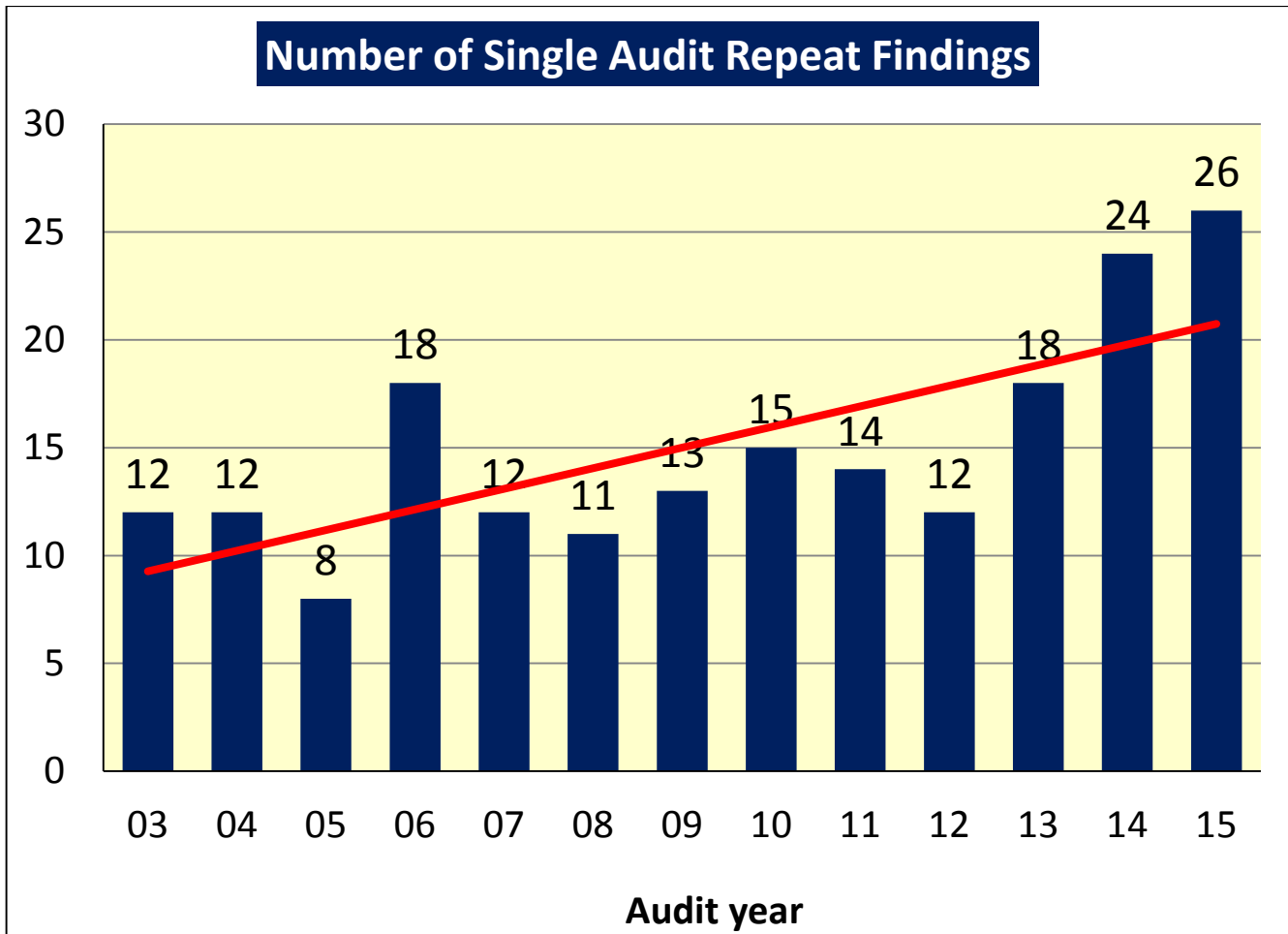
| 2015                             | Short Title                               | # of Recs. | # of Recs. Partially or Fully Implemented | One-year Target | Actual     |
|----------------------------------|---|------------|---|-----------------|------------|
| 15-02                            | State Agency Energy Plan                  | 14         | 12  | 50%             | 86%        |
| 15-03                            | Vermont Health Connect I                  | 15         | 12  |                 | 80%        |
| 15-05                            | Corrections – Transitional Housing        | 10         | 6   |                 | 60%        |
| 15-07                            | Worker Misclassification – DOL, BGS & AOT | 26         | 15  |                 | 58%        |
| 15-09                            | Vermont Health Connect II                 | 2          | 2   |                 | 100%       |
| 15-10                            | Non-competitive Bidding – AOE & AOA       | 9          | 6   |                 | 67%        |
| <b>Total 2015 – One Year Out</b> |   | <b>76</b>  | <b>53</b>                                 | <b>50%</b>      | <b>70%</b> |

**Goal 2.a: Complete mandated financial audits on schedule**

| Goal    | Performance Measure   | Target        | FY 2016        |
|---------|---|---------------|----------------|
| 2.a.i.  | Complete the CAFR by statutory deadlines  | 12/31         | On time        |
|         |   | <b>Target</b> | <b>FY 2015</b> |
| 2.a.ii. | Complete the Single Audit by regulatory deadlines (FY2016 Single Audit is still in process) | 3/31          | On time        |

## Measure 2b: Number of Repeat Single Audit findings

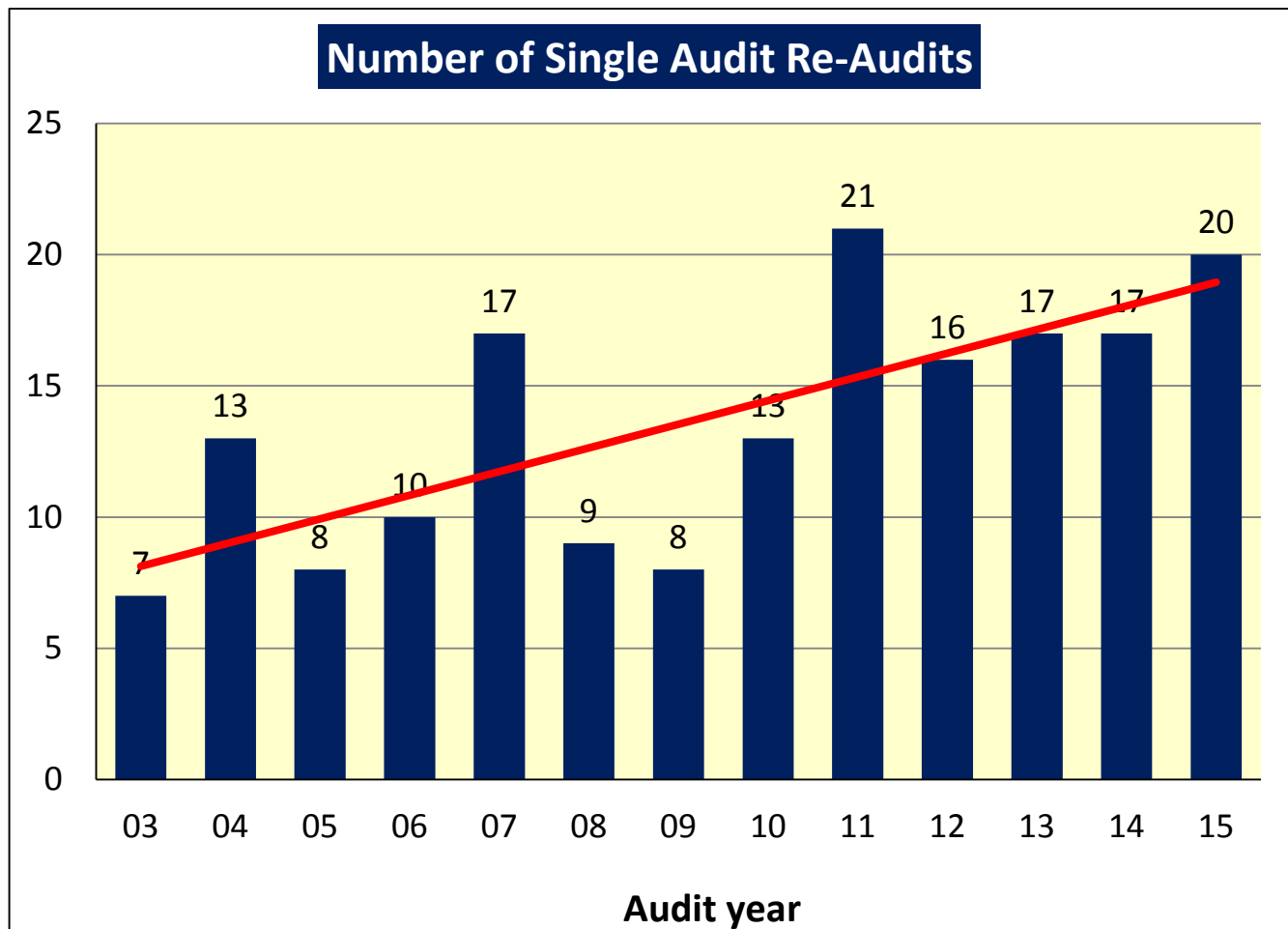
After declining for a few years, repeat findings increased significantly in FY 2013 and continued upward in FY 2014 and FY 2015. FY 2016 figures will be available in March.





## Measure 2c: Number of Single Audit re-audits

From 2010 through 2012 there were abnormalities in the number of programs audited and re-audited due to the American Recovery and Reinvestment Act (ARRA). Unfortunately, the number of required re-audits has remained high even after the ARRA period. Re-audits have a serious budget impact as each one costs \$37,800 (for the FY7 audit). Likely contributing factors for increases in findings and re-audits include staff reductions, turnover, and in some cases a lack of written procedures. And as noted above, the cost of the mandated re-audits is substantial. There will be 14 re-audits next year.



### Goal 3: Non-audit services

| Goal | Performance Measure  | Target | CY 2016  |
|------|--|--------|----------|
| 3.a. | Number, type and outcomes of inquiries from, municipalities, whistleblowers, and others            | ---    | 78 Total |
| i.   | Alleged welfare fraud  | NA     | 27       |
| ii.  | Other whistleblower complaints   | NA     | 22       |
| iii. | Questions about audits and various state entities  | NA     | 23       |
| iv.  | Whistleblower complaints and questions about municipal and county finances                         | NA     | 6        |
| v.   | Public records requests  | NA     | 2        |
| 3.b. | Satisfaction levels of those attending trainings supported or co-sponsored by the SAO <sup>a</sup> |        |          |
| i.   | VLCT / SAO Symposium June 8, 2016  |        |          |
| (a)  | Session 1 – Financial Statement Audits   | 85%    | 95%      |
| (b)  | Session 2 – Payroll & Benefits IRS Reporting Requirements  | 85%    | 90%      |
| (c)  | Session 3 – 2016 Legislative Session Wrap-Up   | 85%    | 71%      |
| (d)  | Session 4 – Model Procurement Policy   | 85%    | 83%      |
| (e)  | Session 5 – Computer Security 101  |        | 96%      |

- a. We asked about three aspects of the presentations: coverage of topic, effectiveness of speaker, and usefulness. The responses were tallied and the average reported for each session.

#### Comments re. whistleblowers, complaints and inquiries:

|          |   |
|----------|---|
| 3.a.i.   | Fraud allegations are forwarded to the AHS fraud unit. According to AHS, none of the allegations were substantiated.  |
| 3.a.ii.  | Other whistleblower complaints: DCF (3), two each for Tax & VITL, two regarding private firms, one each for AOA (SIM), Commerce (EB-5), DAIL, DMH, DMV, DOC, DOL, DPS, OEO, and VNA. Some complaints were forwarded and all the others were investigated. |
| 3.a.iii. | There were numerous other requests and inquiries, including 23 general questions, including four about Tax, three each about Labor and VHC, two each about AOE, FPR, GMP, and UVMC, and one each for AHS, Auditor, DOC, PSB and TIF.                      |
| 3.a.iv.  | Many of the inquiries from municipalities were about training and audit issues, while others expressed concerns about understanding municipal and school audits.  |