



Vermont State Auditor

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11 April 2018

2018 STRATEGIC PLAN  
and  
2017 PERFORMANCE REPORT

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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.

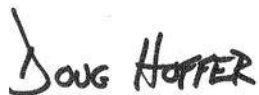
The goals, measures, and targets in this document were developed by the management team in the State Auditor's Office (SAO). In doing so, we considered the SAO's mission and guiding principles and conducted research on how other federal and state audit organizations measure performance. Targets were 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 2017.

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,

A handwritten signature in black ink that reads "Doug Hoffer". The signature is written in a cursive, slightly slanted style.

Doug Hoffer

# 2018 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 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 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 10% of funding for the SAO comes directly from the State's General Fund. 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, revenues, and federal funding. For the current fiscal year (2018), the Legislature appropriated \$3.85 million to fund the SAO,

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<sup>2</sup> Office of Management and Budget (OMB) regulations require states to re-audit programs that have findings.

including \$3.395 million from the SARF, almost \$400,371 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 2018 – 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).

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Challenges: We had a very productive 2017 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 2018 - \$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 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 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 conducting the audits. Therefore, we will report savings and cost recoveries in the performance report but will not set targets.

Not all audits result in quantifiable savings. For example, the 2016 audit of the Vermont Information Technology Leaders (VITL) found that the State paid VITL over \$38 million since 2005 to build and manage Vermont's statewide health information network (VHIE) through grants and contracts with the Department of Vermont Health Access (DVHA). The objective of our audit was to assess whether and how the State evaluated VITL's activities and measured VITL's performance. DVHA performed some basic oversight, but there were deficiencies. Absent more information, we could not report on what more could have been achieved (or how well) or whether the State had been billed incorrectly.

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 one and three years.

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 2017 performance report below is for audits issued in calendar years 2014 and 2016).

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 2018 – 4

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 2018 – Both audits completed on time

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

Challenges: Meeting the targets is dependent on KPMG, CLA, and the state's financial management team.

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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 repeat findings 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, it is possible that the cost of implementing the recommendations could exceed the cost of the resulting re-audits, 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 must 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 prior audit findings 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 re-audits for most repeat findings.

<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. 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:

2018 – NA (see below)

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 (VLCT), 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.

The Auditor's Office co-sponsored the 2018 training to provide CPEs, but the VLCT planned and executed the conference so there are no evaluations this year.

# CALENDAR YEAR 2017 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 2017 Actual
1.a.	Number of performance audits	6	6
1.b.	Average cost per completed audit	\$225,000	\$229,634
1.c.	Value of potential savings or cost recovery		
	i. Department of Buildings & General Services: Capital Projects	Nine of ten projects were \$24.6m above est. costs of \$92m and the median cost overrun was 31%.	
	ii. Dept. of Human Resources: State Employee Misconduct	The State paid ~\$877,000 to 49 employees on Relief From Duty status for misconduct cases opened in 2014 – 2016.	
	iii. Agency of Human Resources: State Employee Misconduct	The State paid ~\$2m to 49 employees on Relief From Duty status for misconduct cases opened in 2014 – 2016.	
	iv. Department of Environmental Conservation: Environmental Compliance	Audit addressed how DEC manages its compliance responsibilities, 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 2016 but completed in 2017, as well as audits initiated in 2017 but not yet completed. We count only the percent of each conducted in 2017.
1.b.	The cost of performance audits varied considerably. The range was from \$91,695 to \$377,758. 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 2017 Actual
1.e.	Number of completed non-audit inquiries	3	1
1.f.	Summary and value of potential savings or cost recovery as appropriate		
	i. State & Local Spending on Public Safety	This report provided information not previously available to policymakers. We will monitor their response.	
	Much of 2017 was devoted to a serious review of peer-reviewed literature regarding economic development for a report that will be issued in Spring 2018.		

**Re. Savings / Cost Recovery from Prior Audits:** While conducting recommendation follow-up for the 2014 Liquor Control audit, the Department reported that the adoption of one of our recommendations resulted in additional revenues of \$3 million in FY 2017.

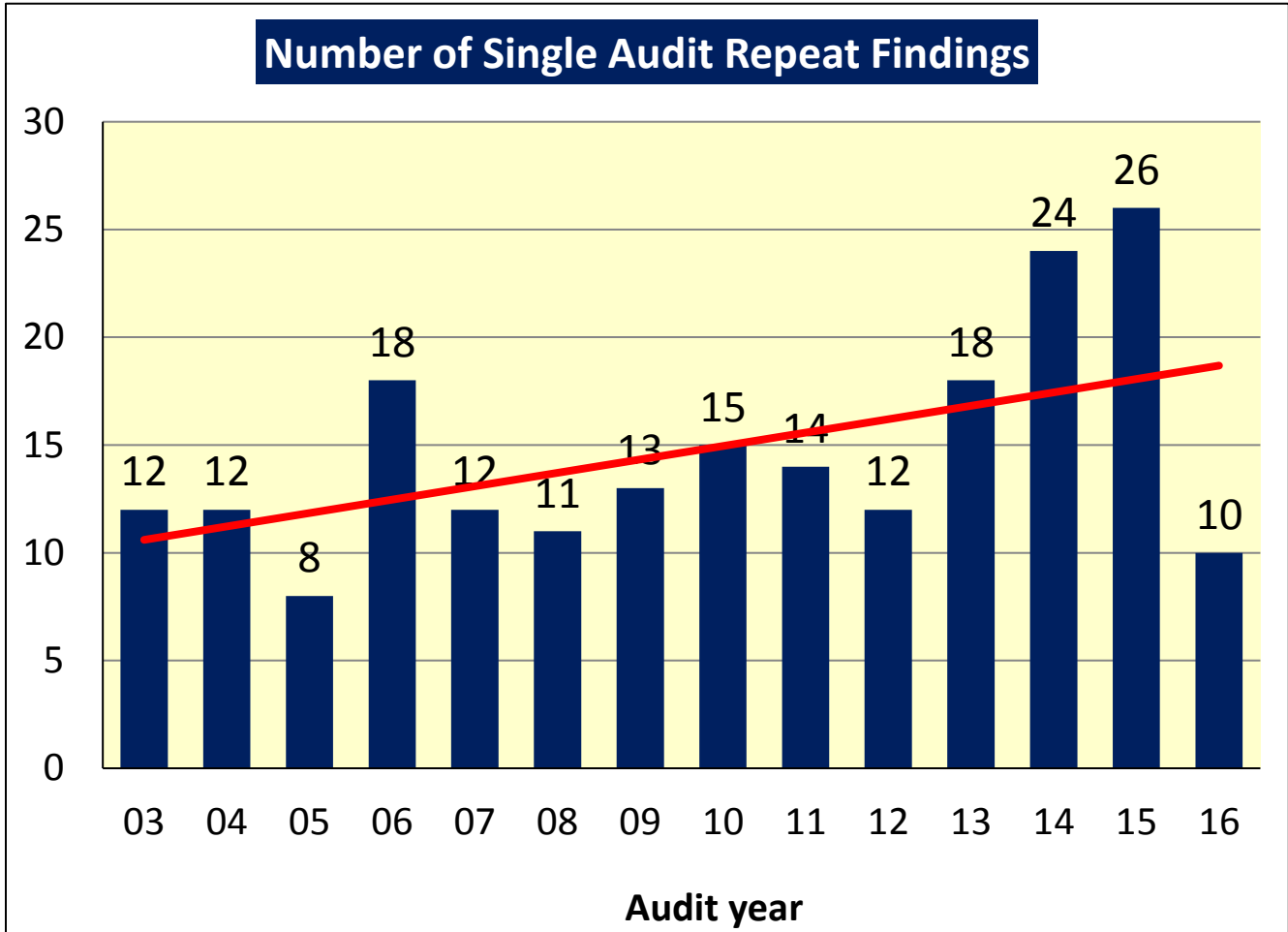
<b>1.d. Percent of recommendations implemented</b>					
<b>2014</b>	<b>Short Title</b>	<b># of Recs.</b>	<b># of Recs. Partially or Fully Implemented</b>	<b>Three-year Target</b>	<b>Actual</b>
14-03	Sex Offender Registry – DPS & DOC	8	7	75%	88%
14-05	Designated Agencies - DAIL	6	6		100%
14-05	Designated Agencies – DMH	5	4		80%
14-06	Liquor Control System - DLC	10	10		100%
<b>Total 2014 – Three Years Out</b>		<b>29</b>	<b>27</b>	<b>75%</b>	<b>93%</b>

<b>2016</b>	<b>Short Title</b>	<b># of Recs.</b>	<b># of Recs. Partially or Fully Implemented</b>	<b>One-year Target</b>	<b>Actual</b>
16-01	Judiciary: Public Defender Fees	7	7	50%	100%
16-02	Agency of Education: Equalized Pupil Calculations	7	2		29%
16-03	Department of Taxes: Personal Income Tax Collections	8	7		88%
16-04	Employee Performance Evaluations – Department of Human Resources	7	6		86%
16-04	Employee Performance Evaluations – Agency of Digital Services (formerly DII)	3	2		67%
16-04	Employee Performance Evaluations – Department of Finance & Management	3	2		67%
16-05	Department for Children & Families: Beneficiary Fraud	13	4		31%
16-06	Department of Vermont Health Access - VITL	7	5		71%
16-07	Self-Funded Web Portal – Web Portal Bd.	2	2		100%
16-07	Self-Funded Web Portal - ADS	3	2		67%
<b>Total 2016 – One Year Out</b>		<b>60</b>	<b>39</b>		<b>50%</b>

<b>Goal 2.a: Complete mandated financial audits on schedule</b>			
<b>Goal</b>	<b>Performance Measure</b>	<b>Target</b>	<b>FY 2017</b>
2.a.i.	Complete the CAFR by statutory deadlines	12/31	On time
		<b>Target</b>	<b>FY 2017</b>
2.a.ii.	Complete the Single Audit by regulatory deadlines	3/31	On time

## Measure 2b: Number of Repeat A-133 (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. The dramatic decline in FY 2016 reflects primarily the hard work of Finance & Management staff who now provide more and better guidance and support to the various state agencies and departments. FY 2017 figures will be available in March.

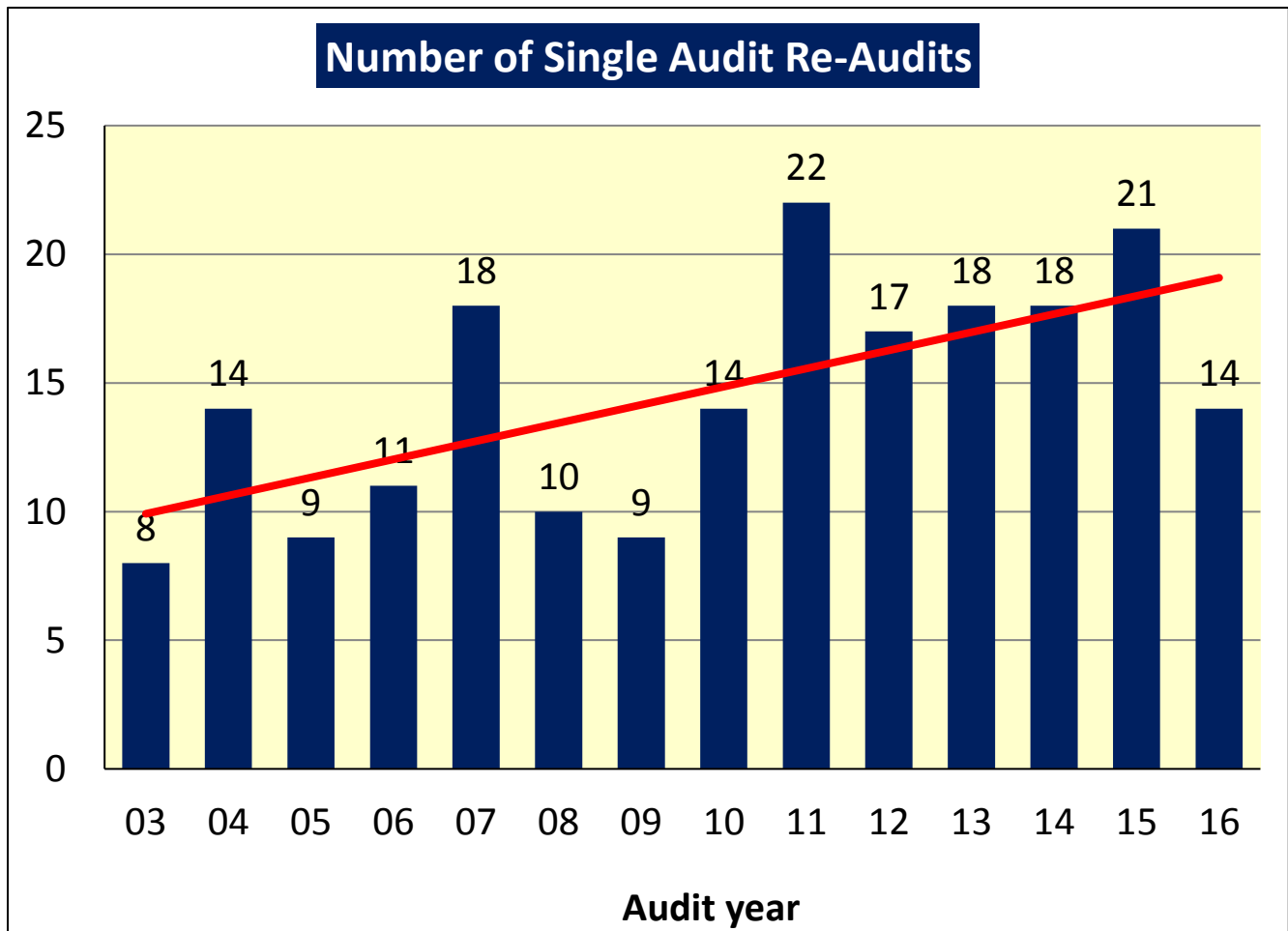




## Measure 2c: Number of A-133 (Single Audit) re-audits

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. Until recently, re-audits had a serious budget impact as each one cost \$37,800. Contributing factors for prior increases in repeat findings and re-audits included staff reductions, turnover, and in some cases a lack of written procedures.

Recently, the Office of Management and Budget (OMB) raised the threshold for federally-funded programs subject to A-133 compliance audits from \$500,000 per fiscal year to \$750,000. In addition, the OMB revised the criteria for determining which programs are considered high risk and tested as a major program. Together, these changes will reduce the number of programs audited annually and (along with some contractual changes with our outside audit firm) likely eliminate most, if not all, re-audit charges. FY 2017 figures will be available in March.



### Goal 3: Non-audit services

Goal	Performance Measure	Target	CY 2017
3.a.	Number, type and outcomes of inquiries from municipalities, whistleblowers, and others	---	66 Total
i.	Alleged welfare fraud	NA	22
ii.	Other whistleblower complaints	NA	13
iii.	Questions about audits and various state entities	NA	23
iv.	Whistleblower complaints and questions about municipal and county finances	NA	5
v.	Public records requests	NA	3
3.b.	Satisfaction levels of those attending trainings supported or co-sponsored by the SAO		
i.	VLCT / SAO Symposium 2017 <sup>a</sup>		NA

<sup>a</sup> As noted, the VLCT planned and executed the 2017 event so we did not survey participants.

#### 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: Two each re. Labor, Transportation and SSI. One each re. Corrections, Fire Safety, GMCB, DMV, Natural Resources Board, Tax, and UVM. Some complaints were forwarded, and all the others were investigated.
3.a.iii	There were numerous other requests and inquiries, including 23 general questions about various government entities.
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.