

STATE OF VERMONT

Auditors' Reports as Required by OMB Circular A-133
and Related Information

Year Ended June 30, 2001

STATE OF VERMONT

Auditors' Reports as Required by OMB Circular A-133
and Related Information

Year ended June 30, 2001

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State of Vermont
Office of the State Auditor
133 State Street
Montpelier, VT 05633-5101



P.O. Box 564
Burlington, VT 05402

Exhibit I

**AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL
OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

Speaker, House of Representatives and
President Pro-Tem of the Senate
Governor
General Assembly, State of Vermont
State House
Montpelier, Vermont

Compliance

We have jointly audited the compliance of the State of Vermont with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of current year findings and questioned costs (Exhibit III). Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

Our compliance audit, described below, did not include the operations of the component units that received federal financial assistance during the year ended June 30, 2001 because the component units engaged other auditors to perform audits in accordance with OMB Circular A-133.

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's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State's compliance with those requirements.

Speaker, House of Representatives and
President Pro-Tem of the Senate
Governor
General Assembly, State of Vermont

In our opinion, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of current year findings and questioned costs (Exhibit III) as items 2001-5 through 2001-13.

Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted one matter involving internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the State's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as finding 2001-5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described in finding 2001-5 is considered to be a material weakness.

Schedule of Expenditures of Federal Awards

We have jointly audited the Schedule of Expenditures of Federal Awards of the State of Vermont for the year ended June 30, 2001. This schedule is the responsibility of the State's management. Our responsibility is to express an opinion on this schedule based on our audit.

Speaker, House of Representatives and
President Pro-Tem of the Senate
Governor
General Assembly, State of Vermont

We conducted our audit of the Schedule of Expenditures of Federal Awards in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Expenditures of Federal Awards is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Expenditures of Federal Awards. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1(c), the accompanying Schedule of Expenditures of Federal Awards is prepared on a cash basis of accounting and is not intended to present the federal expenditures of the State in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule of Expenditures of Federal Awards presents fairly the federal expenditures of the State of Vermont for the year ended June 30, 2001 in accordance with the basis of accounting described in note 1(c) to the Schedule of Expenditures of Federal Awards.

This report is intended solely for the information and use of management, the cognizant federal agency, the Office of the Inspector General and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



Elizabeth M. Ready
State Auditor



KPMG LLP

March 20, 2002

STATE OF VERMONT
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2001

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Department of Agriculture</u>		
10.064	Forestry Incentives Program	\$ 1,222
10.156	Federal - State Marketing Improvement Program	28,815
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	491,324
10.551	Food Stamps	31,536,929
10.553	School Breakfast Program	2,008,126
10.555	National School Lunch Program	7,490,605
10.556	Special Milk Program for Children	69,124
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	9,538,895
10.558	Child and Adult Care Food Program	3,899,523
10.559	Summer Food Service Program for Children	359,401
10.560	State Administrative Expenses for Child Nutrition	283,520
10.561	State Administrative Matching Grants for Food Stamp Program	4,865,550
10.565	Commodity Supplemental Food Program	578,954
10.568	Emergency Food Assistance Program (Administrative Costs)	71,995
10.570	Nutrition Program for the Elderly (Commodities)	553,726
10.572	WIC Farmers' Market Nutrition Program (FMNP)	68,044
10.664	Cooperative Forestry Assistance	1,675,669
10.999	USFS Challenge Grant	3,271
10.999	Dietary Guidelines	31,429
10.999	Federal Egg Inspection Program	1,404
		<hr/> 63,557,526 <hr/>
<u>U.S. Department of Commerce</u>		
11.417	SEA Grant Support - VT Zebra Mussel	13,962
11.426	Financial Assistance for National Centers for Coastal Ocean Science	34,148
		<hr/> 48,110 <hr/>
<u>U.S. Department of Defense</u>		
12.002	Procurement Technical Assistance For Business Firms	257,394
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	7,170
		<hr/> 264,564 <hr/>
<u>U.S. Department of Housing and Urban Development</u>		
14.181	Supportive Housing for Persons with Disabilities	10,850
14.228	Community Development Block Grants / State's Program	10,541,725
14.231	Emergency Shelter Grants Program	341,021
14.235	Supporting Housing Program	289,214
14.239	HOME Investment Partnerships Program	2,205,109
14.900	Lead Based Paint Hazard Control in Privately Owned Housing	69,875
		<hr/> 13,457,794 <hr/>

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2001

CFDA Number	Federal Agency/Program Title	Expenditures
	<u>U.S. Department of the Interior</u>	
15.605	Sport Fish Restoration	\$ 2,301,805
15.611	Wildlife Restoration	1,209,281
15.615	Cooperative Endangered Species Conservation Fund	15,779
15.810	National Cooperative Geologic Mapping Program	116,530
15.904	Historic Preservation Fund Grants-In-Aid	455,928
		<hr/>
		4,099,323
	<u>U.S. Department of Justice</u>	
16.007	State Domestic Assistance Equipment Support Program	213,052
16.523	Juvenile Accountability Incentive Block Grants	1,465,508
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States	703,421
16.541	Juvenile Justice and Delinquency Prevention - Special Emphasis	303,047
16.547	Victims of Child Abuse	20,443
16.550	State Justice Statistics Programs for Statistical Analysis Centers	60,000
16.554	National Criminal History Improvement Program	451,684
16.560	National Institute of Justice Research, Evaluation and Development Project Grants	40,600
16.574	Identify, Assess & Accommodate Developmental Disabilities of Criminals	50,523
16.575	Crime Victim Assistance	1,279,400
16.576	Crime Victim Compensation	137,326
16.579	Bryne Formula Grant Program	1,978,294
16.580	Edward Bryne Memorial State and Local Law Enforcement Assistance Discretionary	125,021
16.582	Crime Victim Assistance/Discretionary Grants	287,227
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants (Crime Bill)	830,890
16.588	Violence Against Women Formula Grants	955,705
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant	535,508
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	474,285
16.592	Local Law Enforcement Block Grants Program	390,353
16.593	Residential Substance Abuse Treatment for State Prisoners	168,480
16.598	State Identification Systems Grant Program	98,595
16.607	Bullet Proof Vest Partnership Program	3,435
16.609	Planning, Implementing and Enhancing Strategies in Community Prosecution	2,584
16.710	Public Safety Partnership and Community Policing Grants	961,513
16.727	Enforcing Underage Drinking Laws Program	290,793
16.999	Marijuana Education	69,555
16.999	Drug Enforcement Administration - DEA	11,458
16.999	Customs	2,815
16.999	Seized Car Program	1,282
		<hr/>
		11,912,797

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2001

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Department of Labor</u>		
17.002	Labor Force Statistics	\$ 537,046
17.005	Compensation and Working Conditions Data	21,897
17.202	Certification of Foreign Workers for Temporary Agricultural Employment	65,528
17.203	Labor Certification for Alien Workers	36,378
17.207	Employment Service	2,683,181
17.225	Unemployment Insurance	56,793,706
17.235	Senior Community Service Employment Program	8,340
17.245	Trade Adjustment Assistance - Workers	34,824
17.246	Employment and Training Assistance - Dislocated Workers	277,141
17.249	Employment Services and Job Training Pilot - Demonstration and Research	1,898,349
17.253	Welfare-to-Work Grants to States and Localities	2,122,430
17.255	Workforce Investment Act	7,200,069
17.257	One Stop Career Center Initiative	348,272
17.503	Occupational Safety and Health - State Program	582,166
17.504	Consultation Agreements	307,166
17.600	Mine Health and Safety Grants	16,300
17.801	Disabled Veterans' Outreach Program (DVOP)	226,750
17.804	Local Veterans' Employment Representative Program	346,189
17.999	National Occupational Information Coordinating Committee (NOICC)	260,207
		73,765,939
<u>U.S. Department of Transportation</u>		
20.005	Boating Safety Financial Assistance	457,720
20.106	Airport Improvement Program	596,050
20.205	Highway Planning and Construction	130,573,865
20.219	Recreational Trails Program	500,413
20.500	Federal Transit - Capital Investment Grants	1,301,121
20.505	Federal Transit - Metropolitan Planning Grants	219,181
20.507	Federal Transit - Formula Grants	3,826,266
20.509	Formula Grants for Other Than Urbanized Areas	7,187,168
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	2,965,440
20.515	State Planning and Research	(77,626)
20.600	State and Community Highway Safety	1,385,612
20.700	Pipeline Safety	45,025
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	75,813
20.999	Fatal Accident Reporting System	12,491
20.999	Graduated Licensing System	2,000
		149,070,539
<u>U.S. Department of the Treasury</u>		
21.999	Bordergap	6,451
21.999	Highgate Outbound	1,990
21.999	Commercial Vehicle Enforcement Team	1,679
		10,120

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2001

CFDA Number	Federal Agency/Program Title	Expenditures
	<u>Equal Employment Opportunity Commission</u>	
30.002	Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	\$ <u>51,000</u>
	<u>National Foundation on the Arts and the Humanities</u>	
45.310	State Library Program	692,830
45.312	Institute of Museum and Library Services - National Leadership Grant	<u>4,524</u>
		<u>697,354</u>
	<u>National Science Foundation</u>	
47.076	Education and Human Resources	<u>1,440,290</u>
	<u>U.S. Department of Veterans Affairs</u>	
64.010	Veterans Nursing Home Care	2,132,196
64.124	All - Volunteer Force Educational Assistance	<u>38,876</u>
		<u>2,171,072</u>
	<u>U.S. Environmental Protection Agency</u>	
66.001	Air Pollution Control Program Support	1,420,703
66.032	State Indoor Radon Grants	129,774
66.454	Water Quality Management Planning	115,674
66.458	Capitalization Grants for State Revolving Funds	6,165,407
66.460	Nonpoint Source Implementation Grants	8,426
66.461	Wetlands Protection - Development Grants	360,176
66.463	National Pollutant Discharge Elimination System Related State Program Grants	55,034
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	65,344
66.468	Capitalization Grants for Drinking Water State Revolving Fund	4,854,153
66.500	Environmental Protection - Consolidated Research	51,101
66.605	Performance Partnership Grants	8,075,490
66.606	Surveys, Studies, Investigations and Special Purpose Grants	151,062
66.701	Toxic Substance Compliance Monitoring Cooperative Agreements	28,707
66.707	TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	158,243
66.713	State and Tribal Environmental Justice	44,233
66.802	Superfund State Site-Specific Cooperative Agreements	74,378
66.804	State and Tribal Underground Storage Tanks Program	3,417
66.805	Leaking Underground Storage Tank Trust Fund Program	740,460
66.809	Superfund State Core Program Cooperative Agreements	186,851
66.811	Brownfields Pilots Cooperative Agreement	732
66.925	Location Data Improvement Program	3,853
66.951	Environmental Education Grants	<u>71,593</u>
		<u>22,764,811</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2001

CFDA Number	Federal Agency/Program Title	Expenditures
	<u>U.S. Department of Energy</u>	
81.039	National Energy Information Center	\$ 2,435
81.041	State Energy Program	645,439
81.042	Weatherization Assistance for Low - Income Persons	780,603
81.079	Regional Biomass Energy Programs	59,463
		<hr/> 1,487,940
	<u>Federal Emergency Management Agency</u>	
83.011	Hazardous Material Training Program for Implementation for the Superfund Amendment and Reauthorization Act	205,107
83.105	Community Assistance Program - State Support Services Element (CAP - SSSE)	83,804
83.516	Disaster Assistance	3,215,454
83.534	Emergency Management - State and Local Assistance	35,579
83.536	Flood Mitigation Assistance	2,630
83.547	First Responder Counter-Terrorism Training Assistance	68,688
83.550	National Dam Safety Grant Program - FEMA	4,321
83.551	Project Impact - Building Disaster Resistant Communities	6,544
83.552	Emergency Management Performance Grants	1,374,488
83.553	State Fire Training Systems Grant	9,345
83.999	Comprehensive Environmental Response (CERCLA)	56,547
		<hr/> 5,062,507
	<u>U.S. Department of Education</u>	
84.002	Adult Education - State Grant Program	914,204
84.010	Title I Grants to Local Educational Agencies	17,996,860
84.011	Migrant Education - Basic State Grant Program	623,218
84.013	Title I Program for Neglected and Delinquent Children	159,838
84.027	Special Education - Grants to States	10,197,301
84.048	Vocational Education - Basic Grants to States	4,088,366
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	8,173,773
84.128	Rehabilitation Services - Service Projects	60,724
84.162	Immigrant Education	46,652
84.169	Independent Living - State Grants	242,285
84.173	Special Education - Preschool Grants	935,379
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	337,500
84.181	Special Education - Grants for Infants and Families with Disabilities	2,127,259
84.185	Byrd Honors Scholarships	85,500
84.186	Safe and Drug-Free Schools and Communities - State Grants	2,038,988
84.187	Supported Employment Services for Individuals with Severe Disabilities	297,293
84.194	Bilingual Education Support Services	56,359
84.196	Education for Homeless Children and Youth	69,587

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2001

CFDA Number	Federal Agency/Program Title	Expenditures
84.213	Even Start - State Educational Agencies	\$ 700,021
84.216	Capital Expenses	18,720
84.224	Assistive Technology	440,660
84.243	Tech-Prep Education	422,822
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	43,592
84.276	Goals 2000 - State and Local Education Systemic Improvement Grants	1,649,955
84.281	Eisenhower Professional Development State Grants	1,568,273
84.298	Innovative Education Program Strategies	1,717,240
84.314	Even Start - Statewide Family Literacy Program	176,429
84.318	Technology Literacy Challenge Fund Grants	2,105,608
84.323	Special Education - State Program Improvement Grant for Children with Disabilities	428,388
84.332	Comprehensive School Reform Demonstration	356,798
84.336	Teacher Quality Enhancement Grants	865,779
84.338	Reading Excellence	725,336
84.340	Class Size Reduction	5,778,493
84.348	Title I Accountability Grants	188,001
		<hr/>
		65,637,201
	<u>U.S. Department of Health and Human Services</u>	
93.000	HRSA Planning	373,204
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	111,336
93.041	Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect and Exploitation	23,644
93.042	Special Programs for the Aging - Title VII, Chapter2 - Long Term Care Ombudsman Services for Older Individuals	47,062
93.043	Special Programs for the Aging-Title III, Part F - Disease Prevention and Health Promotion Services	97,683
93.044	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	1,703,364
93.045	Special Programs for the Aging - Title III, Part C -Nutrition Services	2,560,944
93.048	Special Programs for the Aging - Title IV - Training, Research and Discretionary Projects and Programs	204,900
93.052	National Family Caregiver Support Program	268,908
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,188,406
93.110	Maternal and Child Health Federal Consolidated Programs	153,925
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	110,712
93.119	Mental Health Data Collection	101,902
93.127	Emergency Medical Services for Children	86,006
93.130	Primary Care Services - Resource Coordination and Development Primary Care Offices	129,590
93.136	Injury Prevention and Control Research and State and Community Based Programs	61,506
93.150	Projects for Assistance in Transition from Homelessness (PATH)	242,794

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2001

CFDA Number	Federal Agency/Program Title	Expenditures
93.165	Grants for State Loan Repayment	\$ 10,000
93.194	Community Prevention Coalitions (Partnership) Demonstration Grant	2,616,170
93.197	Childhood Lead Poisoning Prevention Projects-State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	233,698
93.217	Family Planning - Services	952,669
93.230	Consolidated Knowledge Development and Application Program	896,261
93.239	Policy Research and Evaluation Grants	16,175
93.241	State Rural Hospital Flexibility Program	324,081
93.268	Immunization Grants	614,717
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	2,633,557
93.556	Promoting Safe and Stable Families	503,962
93.558	Temporary Assistance for Needy Families	33,879,476
93.563	Child Support Enforcement	4,495,731
93.566	Refugee and Entrant Assistance - State Administered Programs	467,380
93.568	Low-Income Home Energy Assistance	14,205,983
93.569	Community Services Block Grant	2,948,687
93.575	Child Care and Development Block Grant	10,117,183
93.576	Refugee and Entrant Assistance - Discretionary Grants	27,715
93.583	Refugee and Entrant Assistance - Wilson/Fish Program	127,770
93.585	Empowerment Zones Program	4,473
93.586	State Court Improvement Program	50,744
93.590	Community Based Family Resource and Support Grants	262,984
93.595	Welfare Reform Research, Evaluations and National Studies	66,140
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	6,288,354
93.597	Grants to States for Access and Visitation Programs	102,000
93.600	Head Start	146,912
93.603	Adoption Incentive Payments	259,348
93.630	Developmental Disabilities Basic Support and Advocacy Grants	398,953
93.631	Developmental Disabilities Projects of National Significance	62,451
93.643	Children's Justice Grants to States	122,143
93.645	Child Welfare Services - State Grants	739,811
93.647	Social Services Research and Demonstration	2,631
93.652	Adoption Opportunities	187,500
93.658	Foster Care - Title IV-E	12,993,982
93.659	Adoption Assistance	5,446,858
93.667	Social Services Block Grant	8,619,689
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	400,000
93.674	Independent Living	461,263
93.767	State Children's Insurance Program	2,185,429
93.768	Medicaid Infrastructure Grants to Support the Competitive Employment of people with Disabilities	38,000

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2001

CFDA Number	Federal Agency/Program Title	Expenditures
93.770	Child A&N	\$ 121,798
93.775	State Medicaid Fraud Control Units	468,129
93.777	State Survey and Certification of Health Care Providers and Suppliers	824,547
93.778	Medical Assistance Program	385,718,442
93.779	Health Care Financing Research, Demonstrations and Evaluations	247,741
93.912	Rural Health Outreach and Rural Network Development Program	79,703
93.913	Grants to States for Operation of Offices of Rural Health	135,457
93.917	HIV Care Formula Grants	549,203
93.919	Cooperative Agreements for State - Based Comprehensive Breast and Cervical Cancer Early Detection Programs	1,087,576
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	400,156
93.940	HIV Prevention Activities - Health Department Based	1,406,597
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	74,373
93.945	Reducing the Burden of Arthritis and Other Rheumatic Conditions	81,535
93.958	Block Grants for Community Mental Health Services	700,738
93.959	Block Grants for Prevention and Treatment of Substance Abuse	4,119,082
93.977	Preventive Health Services - Sexually Transmitted Disease Control Grants	134,419
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	203,669
93.991	Preventive Health and Health Services Block Grant	498,421
93.994	Maternal and Child Health Services Block Grant to the States	1,891,757
93.999	ADAP Alcohol and Drug Abuse	696,509
		<hr/> 520,816,618
	<u>Corporation for National and Community Service</u>	
94.003	State Commissions	45,173
94.004	Learn and Serve America-School and Community Based Programs	139,544
94.006	AmeriCorps	967,148
94.007	Planning and Program Development Grants	61,609
94.009	Training and Technical Assistance	72,597
		<hr/> 1,286,071
	<u>Social Security Administration</u>	
96.001	Social Security - Disability Insurance	2,634,303
96.008	Social Security Benefits, Planning, Assistance and Outreach Programs	705,186
		<hr/> 3,339,489
	Total Monetary Federal Financial Assistance Expended	<hr/> 940,941,065

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2001

<u>CFDA Number</u>	<u>Federal Agency/Program Title</u>	<u>Expenditures</u>
	<u>Non-Monetary</u>	
10.555	National School Lunch Program	\$ 578,483
10.558	Child and Adult Care Food Program - Commodities	14,225
10.569	Emergency Food Assistance Program (Food Commodities)	1,950,000
39.003	Donation of Federal Surplus Personal Property	469,226
93.268	Immunization Grants	<u>2,193,102</u>
	Total Non-Monetary Federal Financial Assistance Expended	<u>5,205,036</u>
	Total Federal Financial Assistance Expended	\$ <u><u>946,146,101</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Notes to Schedule of Expenditures of Federal Awards
June 30, 2001

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of the State of Vermont are set forth below:

(a) *Single Audit Reporting Entity*

For purposes of complying with The Single Audit Act Amendments of 1996, the State of Vermont (the "State") includes all entities that are considered part of the primary government, as described in the general purpose financial statements as of and for the year ended June 30, 2001. The Schedule of Expenditures of Federal Awards (the "Schedule") does not include component units identified in the notes to the general purpose financial statements.

(b) *Basis of Presentation*

The information in the accompanying Schedule of Expenditures of Federal Awards is presented in accordance with Office of Management and Budget 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 non-federal 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, is reported on the Schedule of Expenditures of Federal Awards. Federal financial assistance does 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 financial assistance programs. Type A programs for the State of Vermont are those programs, or clusters of programs, which equal or exceed \$3 million in expenditures, distributions, or issuances for the fiscal year ended June 30, 2001.

(c) *Basis of Accounting*

The accompanying Schedule of Expenditures of Federal Awards was prepared on the cash basis of accounting as reported on the federal financial reports submitted to the grantor agencies. These reports are periodically reconciled to the State's central accounting system, which is the primary source for information used to prepare the State's general purpose financial statements.

(d) *Matching Costs*

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

STATE OF VERMONT
Notes to Schedule of Expenditures of Federal Awards
June 30, 2001

(2) Categorization of Expenditures

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

(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. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule which is prepared on the basis explained in Note 1(c).

(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. The 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 broken out as follows:

State	\$ 50,058,072
Federal	<u>6,735,634</u>
	<u>\$ 56,793,706</u>

(5) Airport Improvement Program (CFDA #20.106)

The State of Vermont receives Federal Aviation Administration (FAA) funds from the U.S. Department of Transportation. The State excludes from its Schedule of Federal Awards FAA funds received on behalf of the City of Burlington, Vermont, 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 Burlington, who owns and operates the airport.

STATE OF VERMONT
Notes to Schedule of Expenditures of Federal Awards
June 30, 2001

(6) Nonmonetary Federal Financial Assistance

The State is the recipient of Federal financial assistance programs that do not result in cash receipts or disbursements. Non-cash awards are included in the Schedule of Expenditures of Federal Awards.

National School Lunch Program

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.

Child and Adult Care Food Program

The Child and Adult Care Food Program assists states in initiating and maintaining food service programs for children, elderly or impaired adults in nonresidential day care facilities and emergency shelters through cash grants and food commodities, such as bread, milk, cheese, cereal and other commodities.

Emergency Food Assistance Program (Food Commodities)

The Emergency Food Assistance Program helps supplement the diets of low-income Americans, including elderly people, by providing them with emergency food and nutrition assistance at no cost. Under this program, commodity foods are made available by the U.S. Department of Agriculture to States. States provide the food to local agencies that they have selected, 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 CFDA #10.569, Emergency Food Assistance Program, represent the federal government's acquisition value of the food commodities provided to the State.

Donation of Federal Surplus Personal Property

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 CFDA #39.003, Donation of Federal Surplus Personal Property, represent the federal government's acquisition value of the federal property sold by the State.

Immunization Grants

To assist States and communities in establishing and maintaining preventive health service programs to immunize individuals against vaccine-preventable diseases, the State provides various clinics throughout the year in an effort to ensure that all residents have been properly immunized. Total federal expenditures included in the Schedule for CFDA #93.268, Immunization Grants, represent the federal government's acquisition value of the vaccines provided to the State.

STATE OF VERMONT
 Schedule of Current Year Findings and Questioned Costs
 For the Year ended June 30, 2001

(1) Summary of Auditors' Results

- (a) The independent auditors' report on the general purpose financial statements expressed a qualified opinion.
- (b) The audit disclosed four reportable conditions in internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*. Two of these reportable conditions were also considered to be material weaknesses.
- (c) No instances of noncompliance considered material to the general purpose financial statements were disclosed by the audit.
- (d) The audit disclosed one reportable condition in internal control over compliance with requirements applicable to a major federal awards program. This reportable condition was also considered to be a material weakness.
- (e) The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.
- (f) The audit disclosed findings required to be reported by OMB Circular A-133.
- (g) The State's major programs were:

<u>CFDA #</u>	<u>Name of Federal Program</u>
<u>Child Nutrition Cluster</u>	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children
<u>Fish and Wildlife Cluster</u>	
15.605	Sport Fish Restoration
15.611	Wildlife Restoration
<u>Employment Services Cluster</u>	
17.207	Employment Service
17.801	Disabled Veterans' Outreach Program (DVOP)
17.804	Local Veterans' Employment Representative Program
<u>Special Education Cluster</u>	
84.027	Special Education – Grants to States
84.173	Special Education – Preschool Grants

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

<u>CFDA #</u>	<u>Name of Federal Program</u>
<u>Aging Cluster</u>	
93.044	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers
93.045	Special Programs for the Aging – Title III, Part C – Nutrition Services
<u>Child Care Development Cluster</u>	
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
<u>Medicaid Cluster</u>	
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program
<u>Other Programs</u>	
10.558	Child and Adult Care Food Program
17.225	Unemployment Insurance
84.010	Title I Grants to Local Educational Agencies
84.048	Vocational Education – Basic Grants to States
84.340	Class Size Reduction
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance

- (h) A threshold of \$3 million was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
- (i) The State did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

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

Finding 2001 - 1

The Department of Taxes experienced numerous problems with respect to the processing, depositing, recording and reporting of receipts from taxpayers of the State during fiscal year 2001. These problems included:

- a) processing errors that resulted in the issuance of numerous adjustment letters, some of which were erroneous, and some of which included bills for additional taxes or checks for overpayment of taxes;
- b) significant delays between the receipt of tax payments and the depositing of those payments into the bank which increased the potential for lost payments and lost interest to the State;
- c) continued delays in the identification and recording of receipts in the unidentified receipts account, the balance of which increased from \$962,057 in fiscal year 2000 to \$4,570,603 in fiscal year 2001; and,
- d) continued delays in the timely reconciliation of the Commissioner's Refund Account. Reconciliation of the account for June 30, 2001 was not completed and forwarded to the Treasurer's Office until October 9, 2001.

While the Department took steps to mitigate and correct the areas of concern, the extent of the problems and the significance of the dollars involved indicate a serious lack of internal controls. These problems and the lack of controls over its operations in fiscal year 2001 seriously undermined the Department's credibility with respect to its primary role of properly collecting and accounting for taxes in a timely and efficient manner.

This finding is considered to be a material weakness.

Finding 2001 - 2

During fiscal year 2001 the Treasurer's Office did not complete reconciliations of the PATH, Office of Child Support, and Vendor bank accounts in a timely manner. For fiscal year 2001 the accounts listed below had not been reconciled for time periods ranging from 4 to 10 months. These accounts processed disbursements in the following amounts:

<u>Account</u>	<u>Annual Disbursements</u>	<u>Last Monthly Reconciliation As of June 30, 2001</u>
Child Support	Approximately \$48 million	August 2000
PATH	Approximately \$27 million	January 2001
Vendor	Approximately \$1.6 billion	February 2001

These accounts were not reconciled for the year ending June 30, 2001 until the end of October 2001. The lack of timely reconciliations is a significant control weakness that was noted in prior years' Management Letters and continues to go uncorrected.

This finding is considered to be a material weakness.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

Finding 2001 - 3

When expenditures for goods or services received during one fiscal year are paid in the subsequent fiscal year without the corresponding carry forward authority, departments are unable to properly match annual budgets and spending against those budgets. As of the end of October 2001, \$83 million of bills for goods and services received during fiscal year 2001 were paid for in fiscal year 2002. This number has increased from the prior year when \$70 million of bills for goods and services received during fiscal year 2000 were paid for in fiscal year 2001. The State has a total of \$68 million in general fund and \$6.7 million in transportation fund appropriated carry forward authority from fiscal year 2001 available for fiscal year 2002. However, there is not always a relationship between the amount of a department's carry forward expenditures and the amount of its appropriated spending authority. Management of departmental budgets could be adversely affected if the appropriate amounts of carry forward expenditure authority are not authorized to cover prior year expenditures. It is particularly important to note the carry forward of 2001 expenditures to fiscal year 2002, because fiscal year 2002 will be the first year the State plans to institute a full encumbrance accounting system.

Finding 2001 - 4

The manual compilation of the State's Budget and Actual Statements of Revenues, Expenditures and Changes in Fund Balance for the General and Special Revenue Funds adversely affected the State's ability to routinely summarize and report financial data.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

(3) Findings and Questioned Cost Relating to Federal Awards

Finding 2001 - 5

Department of Education

Class Size Reduction (CFDA #84.340)

Requirement

A pass-through entity is responsible for:

- Identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- Monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements.
- Ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings.
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Factors such as the size of awards, percentage of the total program's funds awarded to subrecipients, and the complexity of the compliance requirements may influence the extent of monitoring procedures.

Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations, reviewing the subrecipient's single audit or program-specific audit results and evaluating audit findings and the subrecipient's corrective action plan.

The requirements for subrecipient monitoring are contained in the A-102 Common Rule ('___37 and '___40(a)), OMB Circular A-110 ('___50(a), Federal awarding agency program regulations, and the terms and conditions of the award.

Finding

In accordance with federal guidelines, the Department of Education (the "Department") distributes 100% of the Class Size Reduction funds to eligible Local Education Agencies ("LEAs") throughout the State of Vermont (Pub. L. No. 106-113, Section 310(b)(1)). The Local Education Agencies apply to the Department for Class Size Reduction funds as part of their State Title VI application process and during fiscal 2001, 62 entities were awarded funds for this program.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

(3) Findings and Questioned Cost Relating to Federal Awards

Finding 2001 – 5, Continued

The LEAs are required to comply with the following federal requirements:

- Local Education Agencies must use Class Size Reduction funds in accordance with their approved grant application to recruit, hire (including payment of salaries and benefits), and train fully qualified classroom teachers in order to reduce the class size in the targeted grades or subjects. After funding these efforts, or if the class size in grades kindergarten through third grade is already reduced to 18 or fewer students with fully qualified teachers, the funds may be used to further reduce class sizes or to carry out activities to improve teacher quality, including professional development (Pub. L. No. 106-113, Section 310).
- LEAs must use a minimum of 72% of their Class Size Reduction funds to recruit, hire, and fully train qualified classroom teachers in order to reduce the class size in the targeted grades or subjects. A maximum of 25% of the funds can be used for professional development and teacher testing activities and no more than 3% of the funds may be used for administrative costs (Pub. L. No. 106-113, Section 310(c)(2)(B) and 310(f)).
- LEAs that use Title 1 funds to upgrade the entire educational program of a high poverty school may combine the Title 1 funds with funds from other federal and state and local sources (including Class-Size Reduction funds) to stimulate comprehensive reform of the entire instructional program provided to children, rather than operating separate and fragmented add on programs. The LEA is required to maintain records, which would verify that it qualifies for the schoolwide program. To qualify, at least 50% 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 and the school must develop a comprehensive plan to upgrade its total instructional program (20 USC 6314 and 6396(b); 34 CFR sections 76.731, 200.8; 60 FR 49174).

The Department is required to monitor each LEA to determine whether the Class Size Reduction Funds are being used in accordance with federal regulations. All LEAs are required to submit annual audited financial statements and A-133 audit reports, if applicable, to the Department for their review in addition to submitting monthly financial status reports indicating expenditures incurred by the LEA for the month.

During our review of the Class Size Reduction program, we noted that although the Department receives and reviews the audited financial statements for the LEAs, they have not implemented any additional monitoring procedures to verify that the LEA actually spent their grant on allowable activities and that they complied with federal compliance requirements. As not all LEAs have an A133 audit and since the Class Size Reduction program is not always a major program for those LEAs that do have an A133 audit, it is necessary that the Department have additional monitoring procedures in place.

Also, during our testwork over cash management, we noted that at June 30, 2001, 15 of the 62 LEA's had excessive cash balances on hand. The balances on hand for these entities ranged from \$10,760 to \$60,965.

This finding is considered to be a material weakness.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

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

Finding 2001 – 5, Continued

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review its existing subrecipient monitoring policies and procedures and implement the necessary measures to adequately monitor the Class Size Reduction funds to help ensure that all LEA expenditures are allowable and that the LEAs are complying with federal regulations.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

(3) Findings and Questioned Cost Relating to Federal Awards

Finding 2001 - 6

Agency of Human Services – Child Care Services Division

Child Care Development Cluster:

Child Care and Development Block Grant (CFDA #93.575)

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

Requirement

A pass-through entity is responsible for:

- Identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements.
- Monitoring the subrecipient's activities to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements.
- Ensuring required audits are performed and requiring the subrecipient to take prompt corrective action on any audit findings.
- Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable Federal regulations.

Factors such as the size of awards, percentage of the total program's funds awarded to subrecipients, and the complexity of the compliance requirements may influence the extent of monitoring procedures.

Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed-upon procedures engagements for certain aspects of subrecipient activities, such as eligibility determinations, reviewing the subrecipient's single audit or program-specific audit results and evaluating audit findings and the subrecipient's corrective action plan.

The requirements for subrecipient monitoring are contained in the A-102 Common Rule (§___.37 and §___.40(a)), OMB Circular A-110 (§___.50(a)), Federal awarding agency program regulations, and the terms and conditions of the award.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

(3) Findings and Questioned Cost Relating to Federal Awards

Finding 2001-6, Continued

Finding

The Child Care Services Division (the “Division”) contracts with 12 nonprofit Community Child Care Support Grant Agencies (the “Agencies”) to provide eligibility determination and quality activity services for all of the counties throughout Vermont. The Division is required to perform monitoring procedures over these subrecipient Agencies to ensure that the funds paid to the subrecipients are being used in accordance with the grant agreement and federal regulations. During our review of the monitoring files, we noted that although the Child Care Services Division appears to be monitoring the subrecipients, the documentation of that monitoring is weak. Specifically we noted 1) there are no documented procedures to help ensure that the monitoring is consistent, complete and properly followed up on; and 2) financial and program reports are not specifically reviewed for areas of concern nor are there checklists or notes to indicate what was reviewed.

During testwork over the subrecipient monitoring process, we selected 6 out of the 12 Community Care Agencies and noted the following:

- a. The Community Care Agencies are responsible for determining eligibility for childcare services. The Child Care Services Division performs monthly file reviews to assess whether eligibility was accurately determined. We selected 24 file reviews to test and noted that 14 of the reviews indicated a need for some type of follow-up. Examples of required follow up included verification of pay stubs, verification of license, wrong hours, files needed to be closed and other areas of concern. Based on our reviews of the files and discussions with client personnel, we noted that the Child Care Services Division does not properly follow up and resolve issues with the Community Care Agencies to ensure that problems noted during the review process were properly addressed and corrected. In addition, we also noted that the reviews are not performed on a regular and consistent basis.

In addition, it was noted that the file reviews do not appear to be conducted regularly as for 2 out of the 6 Agencies selected there were less than 5 documented eligibility reviews for fiscal 2001.

- b. The Community Care Agencies are required to submit quarterly financial reports indicating how their grant funds are spent. We selected 2 quarterly financial reports from each of the 6 selected Agencies and noted that 2 of the Agencies selected did not submit the financial reports for March until we requested the reports. It appears that these reports are not being consistently received and reviewed by the Division.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

(3) Findings and Questioned Cost Relating to Federal Awards

Finding 2001-6, Continued

- c. Community Care Agencies who receive more than \$300,000 in federal funds are required to obtain an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Of the 6 Community Care Agencies selected for testwork, 2 did not have an A-133 audit performed, although it appeared that they received in excess of \$300,000 in federal funds. We also noted that the review over the A-133 audits by the Child Care Services Division did not appear adequate and potential issues that could be identified with review were not being adequately followed up on.
- d. The Child Care Services Division makes quarterly disbursements to Community Care Agencies. Disbursements are made to the Agencies without review of financial statements or cash on hand. Of the 6 Agencies selected for testwork, 2 submitted quarterly financial statements as a result of our audit request and the other 4 Agency's quarterly statements did not clearly indicate how they were reviewed. It is not clear whether the Agencies have unspent excess cash on hand from the previous quarter before the next quarter's disbursement. We also noted that for the 2 quarters selected for testwork from each of the 6 Agencies that 8 quarterly payments were made by the Child Care Services Division to the Community Care Agencies that were in excess of the funds expended in that quarter.
- e. The Federal government requires that contracts and grants not be awarded to parties that are suspended or debarred from contracting with the Federal government. The Child Care Services Division does not verify whether any of the Community Care Agencies, which receive Federal funds, are suspended or debarred.
- f. The Community Care Agencies determine eligibility for childcare services. There are instances where an Agency may also provide child care services to children and therefore be considered a provider. In this circumstance the Agency may determine the eligibility of their own childcare services and receive the childcare subsidy. As a result, duties are not properly segregated and the potential exists for misappropriation of funds.
- g. The Community Care Agencies are required to obtain insurance on computer equipment as noted in their "Letter of Agreement" and provide proof of that insurance to the Child Care Services Division. During our testwork we noted that of the 6 selected Community Care Agencies none had proof of the insurance on file with the Child Care Services Division.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

(3) Findings and Questioned Cost Relating to Federal Awards

Finding 2001-6, Continued

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to adequately monitor, and document the monitoring of subrecipients to help ensure that all expenditures are allowable and reasonable and that the necessary eligibility determinations are made according to federal guidelines.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

(3) Findings and Questioned Cost Relating to Federal Awards

Finding 2001-7

Agency of Human Services – Child Care Services Division

Child Care Development Cluster:

Child Care and Development Block Grant (CFDA #93.575)

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

Requirement

1. Funds may be used for child care services in the form of certificates, grants or contracts (42 USC 9858c(c)(2)(A)).
2. Funds may be used for activities that improve the quality or availability of child care services, consumer education and parental choice (42 USC 9858e).
3. Funds may be used for any other activity that the State deems appropriate to promoting parental choice, providing comprehensive consumer education information to help parents and the public make informed choices about child care, providing child care to parents trying to achieve independence from public assistance, and implementing the health, safety, licensing and registration standards established in State regulations (42 USC 9858c(c)(3)(B)).
4. No funds may be expended through any grant or contract for child care services for any sectarian purpose or activity, including sectarian worship or instruction (42 USC 9858k(a)).
5. With regard to services to students enrolled in grades 1 through 12, no funds may be used for services provided during the regular school day, for any services for which the students receive academic credit toward graduation, or for any instructional services which supplant or duplicate the academic program of any public or private school (42 USC 9858k(b)).
6. Except for Tribes, no funds can be used for the purchase or improvement of land, or for the purchase, construction, or permanent improvement (other than minor remodeling) of any building or facility (42 USC 9858d(b)).

Tribes may use funds for the construction and major renovation of child care facilities with ACF approval (42 USC 9858m(c)(6); 45 CFR section 98.84).
7. Except for sectarian organizations, funds may be used for the minor remodeling (i.e., renovation and repair) of child care facilities. For sectarian organizations, funds may be used for the renovation or repair of facilities only to the extent that it is necessary to bring the facility into compliance with the health and safety standards required by 42 USC 9858c(c)(2)(F) (42 USC 9858d(b)).

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

(3) Findings and Questioned Cost Relating to Federal Awards

Finding 2001-7, Continued

Finding

Eligible childcare providers receive a regular monthly subsidy payment that is based on the standard hours of childcare hours provided in a given month. In addition to monthly subsidy payments, the Child Care Services Division grants out funds to Community Care Agencies and other care providers to enhance the quality of childcare. An example of such a grant is the Quality Incentive grants given to implement training programs and to link providers for educational purposes to enhance the quality of child care. The grantee must come up with a plan and distribute funds to various sources. Once the funds are distributed, recipients are required to report back how the funds were spent. During our testwork over the monitoring of the allowability of the grants, we noted the following:

- A. 1 of 4 Quality Incentive grantees selected for testwork did not submit a financial report on how the funds were spent. In addition the proposal for how the funds were to be spent could not be located.
- B. Direct Service grants are for contracts for slots and specialized care. Contract for slots are funds paid to providers to ensure an opening for a specific need, such as infant and toddler care and daycare to teen moms which increases access to child care. During our testwork we noted that for 1 out of 2 agreements tested, the agreement stated that the provider should be accredited or working toward accreditation to obtain accreditation within one year. The provider is in the second year of receiving the grant and has yet to become accredited.

Questioned Costs

\$16,387 represents the grant amounts where allowability could not be determined.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to adequately monitor grants and subsidy payments to providers to help ensure that all expenditures are allowable.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

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

Finding 2001-8

Agency of Human Services – Child Care Services Division

Child Care Development Cluster:

Child Care and Development Block Grant (CFDA #93.575)

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

Requirement

Financial Reporting:

Child Care and Development Fund Financial Report (ACF-696) (OMB No 0970-0163) is due quarterly from States and territories. The *Child Care and Development Fund Financial Report for Tribes (ACF-696T, OMB No. 0970-0195)* is required from tribes. These reports are in lieu of the SF-269, *Financial Status Report*. Each fiscal year's expenditure report must be separate, therefore, multiple reports may be required if awards from more than one fiscal year are expended in a given quarter. Any funds transferred from TANF are treated as Discretionary Funds for reporting on the ACF-696 (42 USC 604(d); 45 CFR section 98.54(a)).

Earmarking

Quality Earmark - States and territories must spend on quality and availability activities, as provided for in the State/territorial plan, not less than 4 percent of CCDF funds expended (i.e., the total of CFDA 93.575 and 93.596 funds) and any State expenditures for which Matching Funds (CFDA 93.596) are claimed (45 CFR section 98.51).

Finding

The Child Care Services Division is required to submit the ACF-696 report, *Child Care and Development Fund Financial Report* on a quarterly basis. The report represents the State's quarterly expenditures by category, such as by quality activity, administration, and non-direct services. During our testwork over the reporting process, we selected one quarterly report for testwork. For that quarter selected, we were unable to obtain supporting documentation for the amounts reported on the ACF-696 for resource and referral, training and eligibility determination expenditures.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

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

Finding 2001-8, Continued

Subsequent to the first quarter of fiscal year 2001, the Division used budgeted information from the Community Care Agencies to report on eligibility determination, resource and referral and training instead of actual expenditures incurred. In addition, a portion of the quality activities that are reported are based upon a percentage of grant expenditures made to the Community Care Agencies. The percentage used is based upon established rates that were determined in fiscal year 1997 and the supporting documentation can no longer be obtained to substantiate the percentages that were used in the current year. All Community Care Agencies are required to submit a breakdown of each category of expenditures incurred on a quarterly basis and therefore the Division has actual expenditure information available to them that could be used in the federal report.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to ensure that actual expenditures are used in the federal reporting process and to ensure that all necessary earmarking requirements have been met.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

(3) Findings and Questioned Cost Relating to Federal Awards

Finding 2001 - 9

Agency of Human Services – Child Care Services Division

Child Care Development Cluster:

Child Care and Development Block Grant (CFDA #93.575)

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

Requirement

1. Funds may be used for child care services in the form of certificates, grants or contracts (42 USC 9858c(c)(2)(A)).
2. Funds may be used for activities that improve the quality or availability of child care services, consumer education and parental choice (42 USC 9858e).
3. Funds may be used for any other activity that the State deems appropriate to promoting parental choice, providing comprehensive consumer education information to help parents and the public make informed choices about child care, providing child care to parents trying to achieve independence from public assistance, and implementing the health, safety, licensing and registration standards established in State regulations (42 USC 9858c(c)(3)(B)).
4. No funds may be expended through any grant or contract for child care services for any sectarian purpose or activity, including sectarian worship or instruction (42 USC 9858k(a)).
5. With regard to services to students enrolled in grades 1 through 12, no funds may be used for services provided during the regular school day, for any services for which the students receive academic credit toward graduation, or for any instructional services which supplant or duplicate the academic program of any public or private school (42 USC 9858k(b)).
6. Except for Tribes, no funds can be used for the purchase or improvement of land, or for the purchase, construction, or permanent improvement (other than minor remodeling) of any building or facility (42 USC 9858d(b)).

Tribes may use funds for the construction and major renovation of child care facilities with ACF approval (42 USC 9858m(c)(6); 45 CFR section 98.84).

7. Except for sectarian organizations, funds may be used for the minor remodeling (i.e., renovation and repair) of child care facilities. For sectarian organizations, funds may be used for the renovation or repair of facilities only to the extent that it is necessary to bring the facility into compliance with the health and safety standards required by 42 USC 9858c(c)(2)(F) (42 USC 9858d(b)).

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

(3) Findings and Questioned Cost Relating to Federal Awards

Finding 2001 – 9, Continued

Finding

A monthly subsidy payroll is paid to each eligible childcare provider based on the standard hours of childcare service provided for a given month. At the end of each month, the provider is sent a Justification Form, which lists all the children each provider cares for, and the standard amount or maximum preauthorized hours of care during the payroll period. The provider then reviews the Justification Form and notes the actual amount of hours attended by the child and the number of days a child was absent in the spaces provided on the Justification Form. The signed form must be returned to the Child Care Services Division. Since the monthly subsidy payroll is based on standard hours, there may be differences between the standard hour used and the actual hours incurred as reported on the Justification Sheet. If the provider owes the Child Care Services Division funds, the amount is subtracted from the following months subsidy payment.

During our testwork over subsidy payroll we noted that there are providers who owe refunds to the State for subsidy payments they received that were not substantiated with child care services performed. We obtained a listing of refunds due to the State and noted that refunds were owed for fiscal year 1995 through June 14, 2001. We also noted that the State does not appear to have adequate and sufficient methods to collect these refunds.

Questioned Costs

\$35,408 represents the amount of refunds owed to the State.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to properly collect refunds from providers who own them.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

(3) Findings and Questioned Cost Relating to Federal Awards

Finding 2001 – 10

Agency of Human Services – Division of Rate Setting

Medical Assistance Program (CFDA #93.778)

Requirement

The State Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are responsible and adequate to meet the costs that must be incurred by efficiently and economically operated providers. The State Medicaid agency must provide for the filing of uniform cost reports for each participating provider. These costs reports are used to establish pay rates. The State Medicaid agency must provide for the periodic audits of financial and statistical records of participating providers. The specific audit requirements will be established by the State Plan (42 CFR section 447.253).

Finding

Annually, hospitals and long term care facilities submit cost reports to the Division of Rate Setting. The cost report categorizes the amounts on the providers audited financial statements and are used to determine the provider's per diem reimbursement rate. The Division of Rate Setting performs a uniform desk review on each cost report submitted. The uniform desk review is an analysis of the provider's cost report to determine the adequacy and completeness of the report, accuracy and reasonableness of the data recorded thereon, allowable costs and a summary of the results of the review for the purpose of either settling the cost report without an on-site audit or determining the extent to which an on-site audit verification is required.

According to the Division of Rate Setting Rules and Regulations included in the State Plan, "Uniform desk reviews shall be completed within an average of 180 days after the receipt of an acceptable cost report filing, except in unusual situations, including but not limited to, delays in obtaining necessary information from a provider."

During our testwork over long-term care facility audits we noted that the reviews were not being performed in a timely manner. Specifically, of the 10 long term care facility audits selected for testwork, all were being performed on the 1999 cost report data and none of the desk reviews had been completed within the 180 days requirement. In addition, reviews of the 2000 and 2001 audits had not yet begun.

Questioned Costs

Not determinable.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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(3) **Findings and Questioned Cost Relating to Federal Awards**

Finding 2001 – 10, Continued

Recommendation

We recommend the Division implement the necessary policies and procedures to help ensure the long-term care facility audits are completed in a timely manner.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

(3) Findings and Questioned Cost Relating to Federal Awards

Finding 2001 -11

Agency of Human Services – Department of Prevention, Assistance, Transition and Health Access (PATH)

Medical Assistance Program (CFDA #93.778)

Requirement

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 PRO.

Finding

The Delmarva Foundation for Medical Care, Inc. has been contracted by the Agency to provide a program of utilization, peer review, and analysis that safeguards against unnecessary or inappropriate use of Vermont Medicaid covered services and assesses the quality of services provided to recipients in the Medicaid program. Under the contract, Delmarva will provide preprocedural, preadmission, retrospective, and concurrent reviews. In addition, Delmarva provides monthly, quarterly, and an annual report based on types of reviews performed.

During our testwork, we noted that the Agency was not in compliance with regulation 42 CFR 456.23 dealing with post-payment claim review, which impacts their ability to detect potential cases of fraudulent and abusive billing. Specifically, “the Agency must have a post-payment review process that (a) allows State personnel to develop and review recipients utilization profiles, provider service profiles, and exception criteria and (b) identifies exceptions so that the Agency can correct misutilization practices of recipients and providers.” We also noted this was a recommendation from HCFA during their Fraud and Abuse Review conducted during May 2000.

In addition, we noted the Delmarva contract is not being monitored adequately. The monthly, quarterly, and annual reports were not being reviewed during fiscal year 2001.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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(3) **Findings and Questioned Cost Relating to Federal Awards**

Finding 2001 –11, Continued

Questioned Costs

Not determinable.

Recommendation

We recommend the Agency develop a post-payment review system to identify fraud and abuse in the Medicaid program. In addition, we recommend the Agency implement the necessary policies and procedures to monitor the Delmarva contract.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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(3) Findings and Questioned Cost Relating to Federal Awards

Finding 2001- 12

Agency of Human Services - Department of Prevention, Assistance, Transition and Health Access (PATH)

Medical Assistance Program (CFDA #93.778)

Requirement

Each State is required to operate a MEQC system in accordance with requirements specified by HCFA. This HCFA approved system redetermines eligibility for individual sampled cases and provides national and State measures of the accuracy of eligibility and benefit amount determinations (commonly referred to as "payment accuracy"), including both underpayments and overpayments, and of the correctness of decisions to deny benefits. The MEQC system reviews the determinations of beneficiary eligibility made by a State agency, or its designee, and uses statistical sampling methods to select claims for review and project the number and dollar impact of payments to ineligible beneficiaries (42 CFR sections 431.800 through 431.865).

Finding

Per CFR 431.816, "The agency must submit a report on its findings by June 30th of each year for the previous April-September sampling period and by December 31st, for the October-March sampling period."

During our testwork, we noted that the Certification of Medicaid Eligibility Quality Control Payment Error forms have not been filed in the required timeframes. In addition, we noted this was a finding during the HCFA Management Review conducted during June 2000.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to help ensure the required reports are filed in a timely manner with the federal agency and that the Corrective Action Plans are filed when the targeted positive error rate is over the threshold.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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(3) Findings and Questioned Cost Relating to Federal Awards

Finding 2001- 13

Agency of Human Services – Department of Prevention, Assistance, Transition and Health Access (PATH)

Medical Assistance Program (CFDA #93.778)

Requirement

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).

Finding

Per review of 45 CFR section 95.621, we noted that State agencies shall determine the appropriate ADP security requirements based on recognized industry standards or standards governing security of Federal ADP systems and information processing. The State ADP Security requirements shall included the following components:

- Determination and implementation of appropriate security requirements as specified in the above paragraph
- Establishment of a security plan and, as appropriate, policies and procedures to address the following area of ADP Security:
 - A. Physical security of ADP resources;
 - B. Equipment security to protect equipment from theft and unauthorized use;
 - C. Software and data security;
 - D. Telecommunications security;
 - E. Personnel security;
 - F. Contingency plans to meet critical processing needs in the event of short or long-term interruption of service;
 - G. Emergency preparedness; and
 - H. Designation of an Agency ADP Security Manger.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2001

(3) Findings and Questioned Cost Relating to Federal Awards

Finding 2001- 13, Continued

- Periodic Risk Analysis: 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.

In addition, the systems should be reviewed on a biennial basis and at a minimum, the review should include an evaluation of physical and data security operating procedures and personnel practices. Reports of the biennial ADP system security reviews, along with supporting documentation, should be maintained for the Department of Health and Human Services on-site review.

Based on our inquires related to the ADP system and security reviews, we were unable to find sufficient evidence to determine that the State Medicaid agency had performed the required ADP risk analyses and system security reviews. Although, the State Medicaid Agency has engaged a vendor to perform a Health Insurance Portability and Accountability (HIPAA) Security Assessment of the Medicaid Management Information System (MMIS), the objective of the assessment was to determine the current level of compliance with proposed security regulations mandated by the Administrative Simplification portion of the Health Insurance Portability and Accountability. The assessment is not intended to be an inspection, accreditation, certification, or risk analysis. Rather, it is intended to provide objective information about the status of security plans, policies, and procedures within the organization and security mechanisms in existing networks and computer systems.

We found no evidence to support that any such reviews were performed during the last 4 years.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to help ensure compliance with the required ADP risk analyses and system security reviews.