

STATE OF VERMONT

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

Year Ended June 30, 2002

STATE OF VERMONT

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

Year ended June 30, 2002

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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, 2002. 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, 2002 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

As described in findings 2002-10, 2002-12, 2002-13, 2002-19 and 2002-23 in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding subrecipient monitoring (CFDA #20.500; 20.507; 93.283 and 93.667); reporting (CFDA #20.500 and 20.507) and allowable costs (CFDA #20.500 and 20.507) that are applicable to its Federal Transit Cluster (CFDA #20.500 and 20.507), Centers for Disease Control (CFDA #93.283); and Social Services Block Grant (CFDA #93.667) programs. Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2002. The results of our auditing procedures also disclosed other 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 2002-11; 2002-14; 2002-15; 2002-16; 2002-17; 2002-18; 2002-20; 2002-21; 2002-22; 2002-24; 2002-25; 2002-26; 2002-27 and 2002-28.

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 certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. 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. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2002-8; 2002-9; 2002-10; 2002-12; 2002-13; 2002-16; 2002-17; 2002-19 and 2002-23.

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, of the reportable conditions described above, we consider items 2002-8; 2002-9; 2002-10; 2002-12; 2002-13; 2002-16; 2002-17; 2002-19 and 2002-23 to be material weaknesses.

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

Schedule of Expenditures of Federal Awards

We have jointly audited the Schedule of Expenditures of Federal Awards (Schedule) of the State of Vermont for the year ended June 30, 2002. This Schedule is the responsibility of the State's management. Our responsibility is to express an opinion on this Schedule based on our audit.

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 referred to above presents fairly, in all material respects, the federal expenditures of the State of Vermont for the year ended June 30, 2002 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

November 21, 2003

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2002

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Department of Agriculture</u>		
10.025	Plant and Animal Disease Pest Control Animal Care	\$ 49,940
10.064	Forestry Incentives Program	1,150
10.156	Federal - State Marketing Improvement Program	9,475
10.450	Crop Insurance	22,891
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	475,815
10.551	Food Stamps	33,301,066
10.553	School Breakfast Program	2,199,819
10.555	National School Lunch Program	8,021,789
10.556	Special Milk Program for Children	96,151
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	10,169,299
10.558	Child and Adult Care Food Program	3,761,592
10.559	Summer Food Service Program for Children	381,492
10.560	State Administrative Expenses for Child Nutrition	352,369
10.561	State Administrative Matching Grants for Food Stamp Program	5,055,014
10.565	Commodity Supplemental Food Program	469,461
10.568	Emergency Food Assistance Program (Administrative Costs)	56,497
10.570	Nutrition Services Incentive	543,023
10.572	WIC Farmers' Market Nutrition Program (FMNP)	67,757
10.576	Seniors Nutrition Project	42,529
10.664	Cooperative Forestry Assistance	1,676,416
10.999	Federal Egg Inspection Program	1,404
10.999	Food Safety Initiative	6,781
10.999	Farmers Market	6,000
10.999	Ag Specialty Crop Promo	275,251
10.999	Emergency Food Assistance	15,795
10.999	Dietary Guidelines	90,678
		<hr/> 67,149,454 <hr/>
<u>U.S. Department of Commerce</u>		
11.417	SEA Grant Support	34,420
11.426	Financial Assistance for National Centers for Coastal Ocean Science	9,898
		<hr/> 44,318 <hr/>
<u>U.S. Department of Defense</u>		
12.002	Procurement Technical Assistance For Business Firms	150,861
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	15,299
		<hr/> 166,160 <hr/>

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2002

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Department of Housing and Urban Development</u>		
14.181	Supportive Housing for Persons with Disabilities	\$ 8,427
14.228	Community Development Block Grants / State's Program	9,805,147
14.231	Emergency Shelter Grants Program	332,129
14.235	Supporting Housing Program	312,040
14.239	HOME Investment Partnerships Program	3,180,668
14.900	Lead-Based Paint Hazard Control in Privately Owned Housing	20,691
14.999	Office of Fair Housing - Capacity Building	54,035
		13,713,137
<u>U.S. Department of the Interior</u>		
15.605	Sport Fish Restoration	2,700,744
15.611	Wildlife Restoration	1,005,085
15.615	Cooperative Endangered Species Conservation Fund	18,800
15.810	National Cooperative Geologic Mapping Program	209,081
15.904	Historic Preservation Fund Grants-In-Aid	466,707
15.916	Outdoor Recreation - Acquisition, Development and Planning	546,606
		4,947,023
<u>U.S. Department of Justice</u>		
16.007	State Domestic Preparedness Equipment Support Program	189,361
16.523	Juvenile Accountability Incentive Block Grants	2,018,577
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States	951,256
16.541	Juvenile Justice and Delinquency Prevention - Special Emphasis	134,117
16.547	Victims of Child Abuse	50,500
16.554	National Criminal History Improvement Program	815,885
16.560	National Institute of Justice Research, Evaluation and Development Project Grants	36,447
16.564	Offender DNA Index System Backlog Reduction	272,614
16.575	Crime Victim Assistance	1,197,460
16.576	Crime Victim Compensation	117,827
16.579	Bryne Formula Grant Program	1,977,580
16.580	Edward Bryne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	87,191
16.582	Crime Victim Assistance/Discretionary Grants	286,458
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	4,916,957
16.588	Violence Against Women Formula Grants	819,176
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant	456,499
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	402,820
16.591	Sex Offender Management	21,656
16.592	Local Law Enforcement Block Grants Program	337,744
16.593	Residential Substance Abuse Treatment for State Prisoners	403,054

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2002

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Department of Justice</u>		
16.598	State Identification Systems Grant Program	\$ 10,854
16.710	Public Safety Partnership and Community Policing Grants	724,797
16.727	Enforcing Underage Drinking Laws Program	386,624
16.733	National Incident Based Reporting System	76,500
16.999	Marijuana Education	45,038
16.999	Drug Enforcement Administration - DEA	9,425
16.999	Seized Car Program	375
16.999	State Justice Institute - Family Court Project	28,653
		16,775,445
<u>U.S. Department of Labor</u>		
17.002	Labor Force Statistics	599,723
17.005	Compensation and Working Conditions Data	25,626
17.203	Labor Certification for Alien Workers	51,940
17.207	Employment Service	2,920,545
17.225	Unemployment Insurance	95,871,595
17.235	Senior Community Service Employment Program	8,340
17.245	Trade Adjustment Assistance - Workers	430,557
17.246	Employment and Training Assistance - Dislocated Workers	325,227
17.249	Employment Services and Job Training Pilot - Demonstration and Research	1,577,097
17.253	Welfare-to-Work Grants to States and Localities	278,388
17.257	One Stop Career Center Initiative	185,078
17.258	WIA Adult Program	1,777,656
17.259	WIA Youth Activities	2,815,550
17.260	WIA Dislocated Workers	2,509,282
17.261	Employment & Training Administration Pilots, Demonstrations and Research Projects	161,012
17.503	Occupational Safety and Health - State Program	519,421
17.504	Consultation Agreements	421,083
17.600	Mind Health and Safety Grants	63,276
17.801	Disabled Veterans' Outreach Program (DVOP)	172,828
17.804	Local Veterans' Employment Representative Program	397,153
		111,111,377
<u>U.S. Department of Transportation</u>		
20.005	Boating Safety Financial Assistance	477,087
20.106	Airport Improvement Program	4,759,402
20.205	Highway Planning and Construction	150,522,497
20.219	Recreational Trails Program	413,840
20.312	High Speed Ground Transportation - Next Generation High Speed Rail Program	69,369
20.500	Federal Transit - Capital Investment Grants	908,918
20.505	Federal Transit - Metropolitan Planning Grants	152,905
20.507	Federal Transit - Formula Grants	3,039,875
20.509	Formula Grants for Other Than Urbanized Areas	2,551,310

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2002

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Department of Transportation</u>		
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	\$ 1,946,557
20.514	Transit Planning and Research	1,077,575
20.515	State Planning and Research	543
20.600	State and Community Highway Safety	2,875,901
20.700	Pipeline Safety	78,426
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	80,317
20.999	Fatal Accident Reporting System	17,654
20.999	Graduated Licensing System	3
		<hr/> 168,972,179 <hr/>
<u>U.S. Department of the Treasury</u>		
21.999	Bordergap	<hr/> 1,999 <hr/>
<u>U.S. Equal Employment Opportunity Commission</u>		
30.002	Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	<hr/> 68,300 <hr/>
<u>National Foundation on the Arts and the Humanities</u>		
45.310	State Library Program	553,290
45.312	Institute of Museum and Library Services - National Leadership Grant	620,139
		<hr/> 1,173,429 <hr/>
<u>National Science Foundation</u>		
47.076	Education and Human Resources	<hr/> 1,471,981 <hr/>
<u>U.S. Department of Veterans Affairs</u>		
64.010	Veterans Nursing Home Care	2,390,224
64.124	All - Volunteer Force Educational Assistance	36,082
		<hr/> 2,426,306 <hr/>
<u>U.S. Environmental Protection Agency</u>		
66.001	Air Pollution Control Program Support	297,718
66.032	State Indoor Radon Grants	118,208
66.454	Water Quality Management Planning	128,623
66.458	Capitalization Grants for State Revolving Funds	9,879,845
66.460	Nonpoint Source Implementation Grants	26,467
66.461	Wetland Grants	228,877
66.463	Water Quality Cooperative Agreements	40,702
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	62,607
66.468	Capitalization Grants for Drinking Water State Revolving Fund	5,401,995
66.470	Rural Communities Hardship Grant	162,210
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	73,807
66.500	Environmental Protection - Consolidated Research	201,812
66.605	Performance Partnership Grants	5,134,204

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2002

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Environmental Protection Agency</u>		
66.606	Surveys, Studies, Investigations and Special Purpose Grants	\$ 294,179
66.701	Toxic Substance Compliance Monitoring Cooperative Agreements	18,562
66.707	TSCA Title IV State Lead Grants - Certification of Lead-Based Paint Professionals	109,838
66.713	State and Tribal Environmental Justice	54,561
66.802	Superfund State, Political Subdivision and Indian Tribe Site-Specific Cooperative Agreements	92,115
66.804	State and Tribal Underground Storage Tanks Program	2,086
66.805	Leaking Underground Storage Tank Trust Fund Program	747,412
66.809	Superfund State and Indian Tribe Care Program	139,061
66.811	Brownfields Pilots Cooperative Agreement	33,188
66.951	Environmental Education Grants	81,125
		23,329,202
<u>Federal Emergency Management Agency</u>		
81.039	National Energy Information Center	492
81.041	State Energy Program	615,445
81.042	Weatherization Assistance for Low - Income Persons	813,340
81.079	Regional Biomass Energy Programs	52,127
83.009	National Fire Academy Training Assistance	45,870
83.011	Hazardous Materials Training for Implementation for the Superfund Amendment & Reauthorization Act	75
83.105	Community Assistance Program - State Support Services Element (CAP - SSSE)	81,935
83.536	Flood Mitigation Assistance	52,545
83.544	Public Assistance Grants	2,215,735
83.547	First Responder Counter-Terrorism Training Assistance	13,812
83.548	Hazard Mitigation Grants	755,311
83.550	National Dam Safety Grant Program	18,050
83.552	Emergency Management Performance Grants	1,321,743
83.553	State Fire Training Systems Grants	2,750
83.557	Pre Disaster Mitigation	13,223
83.999	FEMA Unmet Needs	417,025
		6,419,478
<u>U.S. Department of Education</u>		
84.002	Adult Education - State Grant Program	1,010,584
84.010	Title I Grants to Local Educational Agencies	17,390,124
84.011	Migrant Education - State Grant Program	702,268
84.013	Title I Program for Neglected and Delinquent Children	239,815
84.027	Special Education - Grants to States	12,734,553
84.048	Vocational Education - Basic Grants to States	4,208,255
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	8,980,858
84.162	Immigrant Education	49,271
84.169	Independent Living - State Grants	154,059

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2002

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Department of Education</u>		
84.173	Special Education - Preschool Grants	\$ 820,951
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	414,683
84.181	Special Education - Grants for Infants and Families with Disabilities	2,184,891
84.185	Byrd Honors Scholarships	82,500
84.186	Safe and Drug-Free Schools and Communities - State Grants	1,710,896
84.187	Supported Employment Services for Individuals with Severe Disabilities	284,146
84.194	Bilingual Education Support Services	94,080
84.196	Education for Homeless Children and Youth	130,503
84.213	Even Start - State Educational Agencies	1,048,515
84.215	Fund for the Improvement of Education	868,741
84.216	Capital Expenses	7,120
84.224	Assistive Technology	393,675
84.235	Rehabilitation Services Demonstration and Training - Special Demonstration Programs	5,910
84.243	Tech-Prep Education	348,581
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	54,845
84.276	Goals 2000 - State and Local Education Systemic Improvement Grants	1,364,791
84.281	Eisenhower Professional Development State Grants	2,242,845
84.298	Innovative Education Program Strategies	1,931,317
84.314	Even Start - Statewide Family Literacy Program	140,963
84.318	Technology Literacy Challenge Fund Grants	1,634,953
84.323	Special Education - State Program Improvement Grant for Children with Disabilities	561,833
84.330	Advanced Placement Program	49,977
84.332	Comprehensive School Reform Demonstration	548,211
84.336	Teacher Quality Enhancement Grants	1,445,184
84.338	Reading Excellence	943,995
84.340	Class Size Reduction	7,095,204
84.348	Title I Accountability Grants	375,617
84.352	School Renovation Grants	10,345
		72,265,059
<u>U.S. Department of Health and Human Services</u>		
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	98,355
93.041	Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect and Exploitation	23,703
93.042	Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	46,216
93.043	Special Programs for the Aging-Title III, Part F - Disease Prevention and Health Promotion Services	67,439
93.044	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	1,509,481

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2002

CFDA Number	Federal Agency/Program Title	Expenditures
	<u>U.S. Department of Health and Human Services</u>	
93.045	Special Programs for the Aging - Title III, Part C - Nutrition Services	\$ 2,470,492
93.048	Special Programs for the Aging - Title IV - Training, Research and Discretionary Projects and Programs	550,249
93.052	National Family Caregiver Support Program	479,004
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,593,237
93.110	Maternal and Child Health Federal Consolidated Programs	265,141
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	74,714
93.127	Emergency Medical Services for Children	153,563
93.130	Primary Care Services - Resource Coordination and Development	108,614
93.136	Injury Prevention and Control Research and State and Community Based Programs	120,396
93.150	Projects for Assistance in Transition from Homelessness (PATH)	327,505
93.194	Community Prevention Coalitions (Partnership) Demonstration Grant	802,043
93.197	Childhood Lead Poisoning Prevention Projects-State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	221,982
93.217	Family Planning - Services	759,692
93.230	Consolidated Knowledge Development and Application Program	831,200
93.234	Traumatic Brain Injury - State Demonstration Program	6,000
93.241	State Rural Hospital Flexibility Program	349,218
93.256	HRSA Planning	749,618
93.268	Immunization Grants	1,123,885
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	4,525,075
93.556	Promoting Safe and Stable Families	555,535
93.558	Temporary Assistance for Needy Families	38,995,457
93.563	Child Support Enforcement	4,198,191
93.566	Refugee and Entrant Assistance - State Administered Programs	422,523
93.568	Low-Income Home Energy Assistance	10,020,540
93.569	Community Services Block Grant	3,165,387
93.575	Child Care and Development Block Grant	10,607,127
93.576	Refugee and Entrant Assistance - Discretionary Grants	86,017
93.583	Refugee and Entrant Assistance - Wilson/Fish Program	129,138
93.586	State Court Improvement Program	109,105
93.590	Community Based Family Resource and Support Grants	239,505
93.595	Welfare Reform Research, Evaluations and National Studies	407,813
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	6,860,261
93.597	Grants to States for Access and Visitation Programs	114,052
93.600	Head Start	175,402
93.630	Developmental Disabilities Basic Support and Advocacy Grants	274,334
93.631	Developmental Disabilities Projects of National Significance	77,931
93.643	Children's Justice Grants to States	27,777
93.645	Child Welfare Services - State Grants	699,356
93.652	Adoption Opportunities	37,500

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2002

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Department of Health and Human Services</u>		
93.658	Foster Care - Title IV-E	\$ 12,792,229
93.659	Adoption Assistance	6,395,734
93.667	Social Services Block Grant	8,449,340
93.669	Child A&N	78,792
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	681,568
93.674	Chafee Foster Care Independent Living	532,413
93.767	State Children's Insurance Program	2,520,341
93.768	Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	306,543
93.775	State Medicaid Fraud Control Units	382,842
93.777	State Survey and Certification of Health Care Providers and Suppliers	836,533
93.778	Medical Assistance Program	438,213,405
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	226,266
93.913	Grants to States for Operation of Offices of Rural Health	75,682
93.917	HIV Care Formula Grants	689,195
93.919	Cooperative Agreements for State - Based Comprehensive Breast and Cervical Cancer Early Detection Programs	1,318,228
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	787,143
93.940	HIV Prevention Activities - Health Department Based	1,772,388
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	130,545
93.945	Assistance Programs for Chronic Disease Prevention and Control	98,255
93.958	Block Grants for Community Mental Health Services	984,406
93.959	Block Grants for Prevention and Treatment of Substance Abuse	4,577,378
93.977	Preventive Health Services - Sexually Transmitted Disease Control Grants	167,269
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	287,305
93.991	Preventive Health and Health Services Block Grant	451,580
93.994	Maternal and Child Health Services Block Grant to the States	1,707,030
93.999	ADAP Data Collection	31,312
93.999	Needs Assessment Prevention Contract	187,125
		579,140,620
<u>Corporation for National and Community Service</u>		
94.003	State Commissions	86,493
94.004	Learn and Serve America-School and Community Based Programs	(2,772)
94.006	AmeriCorps	639,760
94.009	Training and Technical Assistance	86,518
94.013	Volunteers in Service to America	22,500
		832,499

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2002

<u>CFDA Number</u>	<u>Federal Agency/Program Title</u>	<u>Expenditures</u>
	<u>Social Security Administration</u>	
96.001	Social Security - Disability Insurance	\$ 2,790,674
96.008	Social Security Benefits, Planning, Assistance and Outreach Programs	<u>673,207</u>
		<u>3,463,881</u>
	Total Monetary Federal Financial Assistance Expended	<u>1,073,471,847</u>
	<u>Non-Monetary</u>	
10.555	National School Lunch Program - Commodities	1,707,616
10.558	Child and Adult Food Care Program - Commodities	14,148
10.569	Emergency Food Assistance Program (Food Commodities)	952,315
39.003	Donation of Federal Surplus Personal Property	1,093,984
93.268	Immunization Grants - Nonmonetary	<u>1,788,048</u>
	Total Non-Monetary Federal Financial Assistance Expended	<u>5,556,111</u>
	Total Federal Financial Assistance Expended	<u>\$ 1,079,027,958</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Notes to Schedule of Expenditures of Federal Awards
June 30, 2002

(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 basic financial statements as of and for the year ended June 30, 2002. The Schedule of Expenditures of Federal Awards (the "Schedule") does not include component units identified in the notes to the basic 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 \$3,237,084 in expenditures, distributions, or issuances for the fiscal year ended June 30, 2002.

(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 may not reconcile to the State's central accounting system, which is the primary source for information used to prepare the State's basic 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, 2002

(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.

The State cannot readily determine amounts paid to subrecipients. As such, those amounts have not been identified separately on the Schedule of Expenditures of Federal Awards.

(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	\$ 88,557,267
Federal	<u>7,314,328</u>
	<u>\$ 95,871,595</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, 2002

(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 - Commodities

The National School Lunch Program assists states in providing a nutritious food service program for low-income children through cash grants and food commodities, such as bread, meat and other commodities. Total federal expenditures included in the Schedule for CFDA #10.555 for commodities, represent the federal government's acquisition value of the food commodities provided to the State.

Child and Adult Food Care Program - Commodities

The Child and Adult Food Care Program assists states through grants-in-aid and other means to initiate and maintain nonprofit food service programs for children, elderly or impaired adults in nonresidential day care facilities and children in emergency shelters. Total federal expenditures included in the Schedule for CFDA #10.558 for commodities, represents the federal government's acquisition value of the food commodities provided to the State.

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, 2002

(1) Summary of Auditors' Results

- (a) The independent auditors' report on the State's basic financial statements expressed a qualified opinion.
- (b) The audit disclosed seven reportable conditions in internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*. Five of these reportable conditions were also considered to be material weaknesses.
- (c) No instances of noncompliance considered material to the basic financial statements were disclosed by the audit.
- (d) The audit disclosed nine reportable conditions in internal control over compliance with requirements applicable to a major federal awards program. All nine of these reportable conditions were also considered to be material weaknesses.
- (e) The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion, except for Federal Transit Cluster (CFDA #20.500 and #20.507); Centers for Disease Control (CFDA #93.283); and Social Services Block Grant (CFDA #93.667).
- (f) The audit disclosed findings 2002-8 through 2002-28 that are 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>Federal Transit Administration Cluster</u>	
20.500	Capital Investment Grants – Capital Grants
20.507	Formula Grants – Urbanized Area Formula Program
<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

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2002

<u>CFDA #</u>	<u>Name of Federal Program</u>
<u>Other Programs</u>	
10.557	Special Supplemental Nutritional Program for Women, Infants and Children
14.228	Community Development Block Grant
14.239	HOME Investment Partnership Program
20.106	Airport Improvements Program
20.205	Highway Planning and Construction – Federal Aid Highway Program
66.468	Capitalization Grants for Drinking Water State Revolving Fund
66.605	Performance Partnership Grants
84.126	Vocational Rehabilitation Grants to State
84.340	Class Size Reduction
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance
93.569	Community Services Block Grant
93.667	Social Services Block Grant

- (h) A threshold of \$3,237,084 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, 2002

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

Finding 2002 - 1

The Department of Finance and Management's controls over financial reporting are not sufficient to provide for the timely and accurate production of the State's financial statements. The Department did not produce complete financial statements to be audited for the year ending June 30, 2002 until October 2003. This was despite a significant planning effort on the part of the Department and the Auditor's Office that began in June 2002.

With the implementation of the new VISION accounting system, the timeliness of the month-end closings was considerably later than expected, resulting in a severe delay in the annual closing of the books. This has resulted in a severe delay in the production of the State's annual financial reports and required audit. The following issues contributed to the delay in completing the financial reports.

- The final audited financial statement for the last component unit was not received until May 2003. Most component unit statements were received in the fall of 2002.
- Additions and deletions to the State's inventory of capital assets were not compiled until July 2003.
- General ledgers associated with all business units for the State were not fully closed for fiscal year 2002 until February 2003.
- Compilation and reconciliation of the Schedule of Expenditures of Federal Awards for fiscal year 2002 was not fully completed until November 2003.
- The restating of the June 30, 2001 financial statements to comply with GASB 34 was not completed until December 31, 2002.
- The final reconciliation of the FMIS balance sheet ending amounts to the beginning VISION balance sheet amounts was not completed until December 2002.
- A substantial amount of data needed to prepare the State's financial statements is still compiled manually, as reported in prior years' management letters. Most notably, the compilation of accounts receivable and the Schedule of Expenditures of Federal Awards is a long manual process subject to errors.

The State of Vermont did not meet the March 31, 2003 State and Federal reporting deadline for submitting its Comprehensive Annual Financial Report or Federal Single Audit Report for the fiscal year ending June 30, 2002.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2002

Finding 2002 - 2

During fiscal year 2002 the Treasurer's Office continued to experience delays in completing monthly and year-end reconciliations of the State's cash accounts. The lack of complete and timely bank reconciliations continued to be a challenge to the Treasurer's Office for fiscal year 2002 and exposed the State to risk that intentional or unintentional errors could occur and not be detected by the Treasurer's Office. The fraudulent cashing of \$5,600 in checks against the vendor account and the \$2.88 million overstatement of the general funds due to a duplicate entry made during fiscal year 2002 are examples of the risks associated with not conducting timely reconciliations.

In February 2002 the State contracted with outside accountants to assist with the back log of monthly reconciliations for fiscal year 2002, however the procedures did not include making necessary adjustments for all reconciling items to fully complete the reconciliation process. The accounts listed below show the annual transactions for fiscal year 2002 and the outstanding unidentified items as of June 30, 2002:

	<u>Annual Transactions</u>	<u>Amount of Unidentified Items</u>
Child Support – EFT	\$ 2,326,538	\$ 1,384,616
Federal Funds	986,019,425	2,948,038
Depository	1,427,793,085	6,740,294

As of March 2003, nine months after the close of the fiscal year, the outstanding reconciling items had not been identified, necessary adjusting entries had not been recorded and the accounts had not been fully reconciled. The lack of timely reconciliations is a significant control weakness that was noted in prior years' management letters and continued to go uncorrected in fiscal year 2002.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2002

Finding 2002 - 3

The State of Vermont's financial statements have never included a general fixed asset account group as required by generally accepted accounting principles. The effect of the omission of the general fixed asset account group was an annual auditor's opinion qualification on the fixed asset portion of the financial statements. For fiscal year 2002, Government Accounting Standards Board Statement No. 34 requires the State to present fixed assets, including infrastructure assets, in the governmental activities column of the government-wide statements.

For fiscal year 2002 we found that the State of Vermont did not have adequate controls in place to properly classify and ensure accountability over the State's assets in accordance with generally accepted accounting principles, accordingly the State was unable to produce fixed asset records for audit. As part of our audit we reviewed the internal control over fixed assets and tested the completeness and accuracy of the fixed assets listing through a sample of the construction in progress at the Department of Buildings and General Services. We found that seven of the ten items selected for testing in our initial sample were improperly classified and included items that did not meet the definition of an asset or of construction in progress. Following the reporting of our results of our initial test work the total for Construction in Progress decreased by \$8.1 million, or by 33%. Of the \$8.1 million decrease, 77% was expensed and the remaining 23% was classified as fixed assets. Upon further review we determined that adequate documentation to support the fixed asset and construction in progress on the financial statements was not available for audit.

For fiscal year 2002 we have issued a qualified opinion on the governmental activities column of the entity-wide statements due to the lack of a detailed accounting record of fixed assets and construction in progress at the Department of Buildings and General Services.

Finding 2002 - 4

The Agency of Transportation uses an internal accounting system, STARS, to track and monitor expenditures on a project basis. The expense information is interfaced with the State of Vermont's centralized accounting system, VISION, on a daily basis. During fiscal year 2002 the STARS system was not reconciled to the VISION system to ensure that the data interface was working properly and that revenues and expenditures were properly and accurately recorded. The fiscal year 2002 reconciliation of the STARS to VISION system was not completed until October 2003, nearly sixteen months following the close of fiscal year 2002. This significant delay in reconciling STARS to VISION contributed to the delay in the timely and accurate production of the State's financial statements for fiscal year 2002.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2002

Finding 2002 - 5

During our audit of the Vermont Economic Advancement Tax Incentives Program we determined that the Department of Taxes did not have an adequate system of internal control and procedures in place to fully verify the credits being claimed on tax returns. As of December 2002 ninety-four businesses and nineteen municipalities had active authorizations for \$80,162,048 in tax credits, with \$8,727,876 of tax credits having been applied against tax liabilities. The tax credits claimed are allowed by the Tax Department at the time the returns are filed and follow-up, if any, is done at a later date. The lack of review undermined the performance-based principle of the program and represents a material risk and potential cost of millions of dollars to the State.

The tax credits, which are authorized by the Vermont Economic Progress Council, require certain economic goals be met in order for the credit to be taken. These goals may include such measures as creation of new jobs, plant expansion, or investments in machinery and equipment. The ability of the Tax Department to verify data relative to these goals and validate the data to support attaining the goals is limited. Tax credits are being taken on returns based on the authorized amounts without any validation of the required performance and corresponding economic data.

Finding 2002 - 6

The Department of Finance and Management continues to present its budgetary results on a cash received and modified cash paid basis. (In addition to cash paid, the State accrued certain expenditures on a budgetary basis). The compilation of the budget numbers continues to be a manual process and the relationship between the budget in VISION and the authorizations passed by the Legislature is not clearly delineated. There continues to be little accountability within the State to match services provided to the proper fiscal year. While some invoices that have been entered into the VISION system have been accounted for, the State does not fully use the encumbrance process to restrict budgetary spending. This can lead to manipulation of the budgetary process by either: 1) holding invoices at year end and paying them out of the next year's budget thereby causing a mismatch between when a service is budgeted and when it is actually paid for; or 2) accelerating the payment of invoices to an earlier fiscal year to expend any remaining appropriation before a year closes. Both situations, if left unattended, can result in budgetary manipulation that will not be detected by personnel within the State.

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 2002, \$76.6 million of bills for goods and services received during fiscal year 2002 were paid for in fiscal year 2003. While the State may have sufficient carry forward authority to cover these expenses in total, 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.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2002

Finding 2002 - 7

In February 2002 our Office reported that the State had inadequate protocols regarding the issuance, changing and revocation of user names and passwords for access to the VISION financial management information system and placed the State at risk of cyber-sabotage. In May 2002 staff from this Office found that by replicating initial passwords assigned to users it could easily gain access to key VISION user accounts in almost all business units tested, including the Executive Office. Anyone with basic knowledge of VISION could have entered, changed, approved, and budget checked vouchers to generate fraudulent payments. Neither the Human Resource and Management System (HRMS) nor VISION system is currently configured to mandate password changes on a regular basis and further test work revealed that the applications could not track or monitor when or how often passwords are changed.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2002

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2002 - 8

Finance and Management

All Federal Programs

Requirement

A pass-through entity shall perform the following for Federal awards it makes: (1) identify Federal awards made by informing each subrecipient of CFDA title, award name and number, award year, if the award is R&D, and name of Federal agency; (2) advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity; (3) monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved; (4) ensure that subrecipients expending \$300,000 or more in Federal awards during the subrecipients's fiscal year have met the audit requirements of this part for that fiscal year; (5) issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action; (6) consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records; and (7) require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with this part. (OMB Circular A-133.400(d))

Finding

In order to help achieve the objects of various Federal award programs, the State of Vermont grants funds to third party subrecipients to carry out specific duties as allowed under federal regulations. Once a subrecipient relationship is created, the State has a responsibility to ensure that the subrecipient is made aware that they have been awarded federal funds through a grant agreement and to determine whether or not the subrecipient has spent the awarded funds in accordance with Federal regulations by implementing and performing procedures to monitor the grant activities of the subrecipient. During our testwork over subrecipient monitoring throughout the State, we noted the following:

1. The State of Vermont does not have a system in place to help Departments identify what a subrecipient is. As a result, many departments are unaware of the fact that they have even entered into subrecipient relationships and are therefore not properly monitoring the funds that are awarded as required by OMB. As there are no guidelines, subrecipient grant agreements do not contain the proper identifying information as required by OMB and the subrecipient is unaware that they have been awarded federal funds.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2002

Finding 2002 – 8, Continued

2. The State of Vermont does not have a system in place to help departments track subrecipient grant payments. As a result, departments' are unaware that a single subrecipient may be receiving multiple awards from different State departments. As a result, subrecipient audit reports are not always obtained. This information would assist departments with meeting the monitoring requirement to obtain, review and issue management decisions concerning subrecipient audit reports. It would also eliminate any duplicate work performed across the State concerning the review of subrecipient audit reports as currently multiple departments are reviewing and following up on the same audit reports on an annual basis.
3. There are no policies and procedures in place to assist departments in the review of subrecipient audit reports. As a result, the review of subrecipient audit reports for types of opinions, compliance issues, internal control issues and agreement of financial data are not always performed.
4. The State of Vermont does not have policies or procedures to assist departments in developing subrecipient monitoring tools for monitoring a subrecipient during the award period. As a result, many departments do not have a mechanism in place to monitor subrecipients to ensure that the awarded funds are being spent in accordance with the written grant agreement. Furthermore, subrecipients receiving less than \$300,000 in assistance are frequently not monitored since they fall below the required audit threshold.

The lack of formal procedures for identifying, tracking or monitoring subrecipients has been noted in previous audit years, with the most recent inclusion in the single audit report for the period ending June 30, 1999. At the time, the State of Vermont's financial accounting system, FMIS, was incapable of capturing the type of data that would enable the State to track subrecipient grant payments. Per review of the June 30, 1999 corrective action plan, the Department of Finance and Management indicated that the installation of the State's new financial accounting system would provide the means to track the movement of federal funds by CFDA numbers through the State system and non-state entities. The scheduled date of completion was for fiscal year ending June 30, 2002.

On July 1, 2002, the State implemented a new accounting system, VISION. Under the VISION system, the State of Vermont has not been able to generate the necessary data to identify, track or monitor subrecipients. As a result, this internal control and compliance issue continues to remain unresolved and corrective action has not been made.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the department implement the necessary procedures to ensure that all subrecipient grant payments are identifiable within the financial accounting system and are monitored in accordance with the above-stated requirements.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2002

Finding 2002 - 9

Finance and Management

All Federal Programs

Requirement

The auditee shall: (a) identify, in its accounts, all Federal awards received and expended and the Federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity; and (b) prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with OMB Circular A-133 Section .310.

Finding

During our audit of the State of Vermont's federal expenditures, we noted that the State does not have a system in place for compiling the federal expenditure data needed to prepare the Schedule of Expenditures of Federal Awards (the "Schedule"). Prior to July 1, 2001, the State's Financial Management Information System (FMIS) was unable to record the information that would enable the State to prepare the Schedule. As a result, the information was collected directly from departments throughout the State and manually compiled and reconciled to the FMIS system. In order to correct this deficiency as noted in Finding 1997-8, the Department was in the process of developing and implementing a new financial management system that would allow the State to generate the needed information to identify Federal awards and prepare the schedule. The scheduled completion date for the corrective action plan was May 2002 as shown in the Summary Schedule of prior Audit Findings for the period ending June 30, 2001.

On July 1, 2001, the Department implemented a new financial management system, VISION. During our audit of the State's federal expenditures for the period ending June 30, 2002, we noted that the VISION system does not identify the following:

1. CFDA title and number
2. Award number and year
3. Name of Federal agency; and
4. Name of the pass-through entity.

In addition, the VISION system does not capture the cost associated with non-cash expenditures received as federal awards, including immunization grants and food commodities.

As a result, Finance and Management was unable to prepare the Schedule of Expenditures of Federal Awards from or reconcile the Schedule to the VISION system.

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, 2002

Finding 2002 – 9, Continued

Questioned Costs

Not determinable.

Recommendation

We recommend that Finance and Management implement the necessary action to ensure that all federal awards are properly accounted for and identified within the financial accounting system in order to ensure that all expenditures are properly reported within the Schedule of Expenditures of Federal Awards and that the Schedule is supported or reconciled to the State's accounting system.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2002

Finding 2002 - 10

Agency of Transportation

Federal Transit Administration Cluster:

Capital Investment Grants—Capital Grants (CFDA #20.500)

Formula Grants—Urbanized Area Formula Program (CFDA #20.507)

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, OMB Circular A-110, Federal awarding agency program regulations, and the terms and conditions of the award.

Finding

During state fiscal year 2002, the Agency granted funds to the Vermont Transportation Authority (VTA). VTA is a quasi-state agency, which was established by the Vermont legislature as an instrumentality of the State and is its own separate entity. VTA is primarily responsible for the operation of the Charlotte – Burlington commuter rail project. VTA in turn contracted with Vermont Railway (VTR) to operate the trains that actually run on the commuter rail line.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2002

Finding 2002 – 10, Continued

Funding for the Charlotte – Burlington commuter rail project was paid for under two grants during fiscal year 2002. The first grant is an operating grant, in which the State grants funds to VTA to support the daily operations of VTA. The second grant was to fund the capital development of the Charlotte – Burlington commuter rail. Current year expenditures under the capital grant primarily related to the building of the South Burlington temporary train station. Payments under this grant were made primarily to two vendors that were contracted with by VTA for the construction and inspection of the train station.

During our testwork over the monitoring of the grants, we noted the following:

Operating Grant VT 90-X045-00:

1. The General Manger of VTA is an employee of the State and all of his salary costs as the General Manger of VTA are paid under the state's payroll system which also allows the General Manager to participate in the state's retirement system. This appears to be a conflict of interest.
2. The General Manager of VTA has the sole responsibility for monitoring all invoices paid under the operating grant. In addition to reviewing invoices, the General Manager also conducts periodic site visits at VTR to help ensure that VTR's records agree to the billings. We have noted through conversations with the General Manager that the site visit reviews are not formally documented and are therefore unverifiable. Furthermore, the Agency itself does not review any invoices submitted for payment by VTA to ensure that the costs are allowable and reasonable based on the grant agreement.

Capital Grant VT 90-X043-00:

3. VTA's contract with VTR did not address whether VTR was suspended or debarred from receiving federal awards.
4. During our review of a vendor contract that VTA entered into, we noted that the contract had not been put out to bid and VTA had not completed a sole source justification.

General Monitoring:

5. VTA submitted a financial statement and A-133 audit report to the Agency and although it appears that the report was reviewed, the Agency did not complete the final review confirmation letter to communicate how the findings were to be resolved.

A similar finding was noted in the Federal Transit Administration's December 2000 Triennial Review.

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, 2002

Finding 2002 – 10, Continued

Questioned Costs

\$2,087,254 – represents the fiscal 2002 costs paid under the operating grant.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to ensure that the necessary monitoring procedures are implemented over the VTA grants to ensure compliance with federal and grant requirements.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2002

Finding 2002-11

Agency of Transportation – Policy and Planning

Federal Transit Administration Cluster:

Capital Investment Grants—Capital Grants (CFDA #20.500)

Formula Grants—Urbanized Area Formula Program (CFDA #20.507)

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, OMB Circular A-110, Federal awarding agency program regulations, and the terms and conditions of the award.

Finding

During State fiscal year 2002, the Agency granted funds to the Chittenden County Metropolitan Planning Organization (CCMPO). On a monthly basis, CCMPO submits requests for reimbursement to the Agency that is accompanied by all invoices paid by the CCMPO to support its request for funds. The program manager reviews the requests on a monthly basis and ensures that all costs being reimbursed are allowable and reasonable under the signed grant agreement between the Agency and CCMPO.

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Finding 2002-11, Continued

During our testwork over the monitoring of the grant agreement, we noted the following:

1. Although the CCMPO submitted its financial statement and A-133 audit report to the Agency, the Agency had not reviewed the information. In addition, the Agency has not routinely reviewed audit reports submitted by subrecipients since 1999.
2. During our review of the CCMPO's September 30, 2001 A-133 audit report, we noted that the funds granted under the Federal Transit Administration Cluster were not identified in the Schedule of Federal Expenditures.
3. The program manager responsible for monitoring the payments made to the CCMPO is a member of the Board for the CCMPO and has full voting power. As such, there appears to be a conflict of interest on the part of the Agency as a whole over the monitoring of the costs paid to the CCMPO.

A similar finding was noted in the Federal Transit Administration's December 2000 Triennial Review.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to help ensure that the necessary monitoring procedures are performed over the CCMPO grant.

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Finding 2002-12

Agency of Transportation

Federal Transit Administration Cluster:

Capital Investment Grants—Capital Grants (CFDA #20.500)

Formula Grants—Urbanized Area Formula Program (CFDA #20.507)

Requirement

The applicable reporting forms are as follows:

1. Financial Status Report (FSR) (SF-269 (OMB No. 0348-0039) or SF-269A (OMB No. 0348-0038)). Recipients use the FSR to report the status of funds for all non-construction projects and for construction projects when the FSR is required in lieu of the SF-271.
2. Report of DBE Awards and Commitments (OMB No. 2105-0510) - Based on the level of FTA funding, exclusive of transit vehicle purchases, recipients are required to implement a DBE program. To monitor the progress of the DBE program, the recipient is required to submit quarterly reports based on a record-keeping system (49 CFR section 26.11).

Finding

During our testwork over federal reporting we noted that during fiscal year 2002 the Agency was required to submit a total of 20 reports (4 SF 269 reports for the CCMPO FY 01 grant, 4 SF 269 reports for the CCMPO FY 02 grant, 4 SF 269 reports for the commuter rail capital grant, 4 SF 269 reports for the commuter rail operating grant and 4 DBE reports), of which only 9 reports were submitted. Specifically, we noted the following findings related to reporting:

- A) CCMPO FY 01 Grant - None of the quarterly SF 269 reports were filed.
- B) CCMPO FY 02 Grant - None of the quarterly SF 269 reports were filed.
- C) Commuter Rail Capital Grant - The 3rd and 4th quarter SF 269 reports were not filed.
- D) DBE Reports:
 1. The report was not filed for the 1st quarter of State Fiscal Year 2002.
 2. Although the reports for the 2nd, 3rd and 4th quarters were filed, the Agency did not have any backup documentation to support the information in the reports.

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Finding 2002-12, Continued

3. During the Agency's last triennial review completed in December 2000, the FTA commented that the Agency should develop a methodology to determine its DBE goal related to FTA programs. Although the Agency did submit its methodology for federal fiscal year 2002, it was not sent until January 18, 2002.

E) Commuter Rail Grants – Although the Agency's subrecipient, Vermont Transportation Authority (VTA), charges a roundtrip passenger fee for all passengers that use the commuter rail service, the Agency has not reported this program income on its SF 269 reports.

F: The data used to prepare the federal reports is obtained directly from the STARS system (the Agency's federally approved system for tracking project costs), which has not been reconciled to the VISION system (the State's centralized accounting system) as of May 27, 2003, and therefore we were unable to test the completeness of the data.

A similar finding was noted in the Federal Transit Administration's December 2000 Triennial Review.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to ensure that required reports are filed timely and in accordance with federal requirements.

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Finding 2002 - 13

Agency of Transportation

Federal Transit Administration Cluster:

Capital Investment Grants – Capital Grants (CFDA #20.500)

Formula Grants – Urbanized Area Formula Program (CFDA #20.507)

Requirement

To provide reasonable assurance that federal awards are only expended for allowable activities and that the costs of goods and services charged to federal awards are allowable and in accordance with applicable cost principles.

Finding

The Agency contracted with Vermont Railway (VTR) to provide construction services related to the repair and rehabilitation of train tracks and rail bed associated with a section of the track to be used for the commuter rail project. The contract with VTR was entered into on December 20, 1995 and continued through September 30, 1997. During our review of the contract, we noted the following:

- A. Several amendments were made when the original contract expired, with the most recent being a correspondence letter between the Agency and VTR dated April 3, 2000 regarding extension of Project Agreement which stated “the date for project completion is changed from 30 Sept. 1999 to 31 Dec. 2000”. No agreements have been entered into with VTR for the capital grant subsequent to December 31, 2000.
- B. Under the initial contract and subsequent amendments, the total amount awarded to VTR was \$9,500,000.
- C. As of December 5, 2002, a total of \$12,985,230 had been paid to VTR under the contract. Of this amount, \$10,388,184 was paid using federal funds and \$2,597,046 was paid with state funds.
- D. The \$10,388,184 federal portion exceeded the contract limitation by \$888,184 for the period of January 1, 2001 through December 5, 2002. Although \$757,762 of the overage related to services performed within the contract period, these payments exceeded the maximum contract award.
- E. As of May 27, 2003, the Agency is still making payments on this contract, which still has not been amended.

This finding is considered to be a material weakness.

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Finding 2002 – 13, Continued

Questioned Costs

\$888,184 – the federal portion of the overpayment on the contract from January 1, 2001 to December 5, 2002.

Recommendation

We recommend that the Agency review its policies and procedures over contracting and implement the necessary measures to help ensure that expenditures are allowable and only made on valid contracts.

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Finding 2002-14

Agency of Natural Resources

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

Requirement

To provide reasonable assurance that reports of Federal awards submitted to the Federal Awarding agency include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements. The SF 269 Financial Status Report is required to be filed annually at the end of the Federal fiscal year.

Finding

The Agency files an annual SF 269A Financial Status Report for each open grant. The SF 269A report tracks total expenditures spent to date, as well as the state and federal portion of those outlays and any outstanding balance that remains unspent on the grant. For the period ending June 30, 2002, the Agency submitted 4 SF 269A reports for federal grant years 1997, 1998, 1999 and 2000.

The SF 269A report is prepared using a combination of excel reports from the State's general ledger, VISION, and internal memos for amounts awarded to loan recipients. During our testwork over the federal reporting process, we noted that the SF 269A report for the 1998 grant year did not agree to the supporting excel VISION expenditure detail maintained by the Agency. The SF 269A showed total grant expenditures of \$8,269,688 and the supporting schedule showed total grant expenditures of \$8,213,045, for a difference of \$56,643.

Questioned Costs

\$56,643 - the amount of the over-reported funds. On January 7, 2003, the Agency filed a corrected report.

Recommendation

We recommend that the Department review its procedures over financial reporting and implement the necessary control policies and procedures to help ensure that expenditures are accurately reported and the Department is in compliance with the federal requirements over reporting.

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Finding 2002-15

Agency of Natural Resources

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

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 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, OMB Circular A-110, Federal awarding agency program regulations, and the terms and conditions of the award.

Finding

The Department has entered into a grant agreement with the Northeast Rural Water Association (NRWA) for specialty services associated with environmental documentation required for construction projects. Funds paid under this grant come from the Technical Assistance Set-Aside and the State Program Management Set Aside funds of the DWSRF. During our testwork over payments made to the NRWA, we noted the following:

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Finding 2002-15, Continued

- A. The A-133 audit report is not obtained from NRWA, although one was completed and sent upon our request.
- B. The Department does not obtain any certifications from the NRWA stating that the NRWA has not been suspended or debarred from receiving federal funds.
- C. Although the Department and the NRWA have entered into a grant agreement, the services that the NRWA are providing appear to be more consistent with a vendor relationship versus a subrecipient relationship.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department implement the necessary control policies and procedures to adequately monitor the subrecipients of the grant award to help ensure compliance with the above stated regulations. In addition, we recommend that the Department review its policies for determining the distinction between a grant and a contract in order to ensure that the type of agreement entered into is appropriate based upon the services being rendered.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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Finding 2002-16

Agency of Natural Resources

Performance Partnership Grants (CFDA #66.605)

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 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, OMB Circular A-110, Federal awarding agency program regulations, and the terms and conditions of the award.

Finding

The Department of Environmental Conservation (DEC) grants funds to subrecipients to assist in funding eligible projects as outlined by the Department's Performance Partnership Agreement with the U.S. Environmental Protection Agency. The Department enters into a signed grant agreement with each subrecipient which includes a work plan that outlines the required activities and performance indicators that the subrecipient must adhere to. The Department monitors subrecipients through receipt of semi-annual and annual progress reports on performance indicators, meetings and periodic site visits. During our review of the Department's granting process and monitoring procedures, we noted the following:

STATE OF VERMONT
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Finding 2002-16, Continued

- A. The grant agreements do not readily identify the Federal award information (e.g., CFDA title and number, award name, name of Federal agency) and applicable compliance requirements that must be adhered to.
- B. The grant agreements do not require that the subrecipient certify whether or not they have been suspended or debarred from receiving federal funds and the Department has not implemented other methods for verifying this requirement.
- C. Advance payments are made to subrecipients. The Department does not appear to have procedures in place to monitor excess cash on hand.
- D. The Department does not appear to have sufficient documented mechanisms in place to ensure that the awarded funds are spent on allowable activities in accordance with the grant agreement.
- E. Subrecipients are not required to submit an A-133 audit report or audited financial statements. Although the grant awards are typically below the \$300,000 threshold requiring an A-133 audit, the Department has no mechanism in place to determine whether or not the subrecipient received additional awards from other sources that would have required them to have a single audit.

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

- F. 1 out of 9 subrecipients received a final payment prior to the completion of the required final project report.

This finding is considered to be a material weakness.

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 Performance Partnership Grant funds to help ensure that all subrecipient expenditures are allowable and in compliance with federal regulations.

STATE OF VERMONT
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Finding 2002-17

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, OMB Circular A-110, 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 2002, 62 entities were awarded funds for this program.

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Finding 2002-17, 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 (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 (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 for the month. During fiscal 2002, the Department performed 15 onsite visits to determine whether the LEA met the applicable class size requirements of 18 students per class and to verify that the costs incurred by the LEA agreed to the approved budget for the current year. During our testwork over subrecipient monitoring, we noted the following:

- A. We reviewed 5 of the 15 onsite visits performed by the Department and noted that there was no documentation to support that the funds granted to the LEA were used for allowable purposes or that the necessary earmarking requirements had been met.
- B. Although the Department receives and reviews the audited financial statements for the LEAs, they have not implemented additional monitoring procedures to verify that the LEA actually spent their grant on allowable activities and that they complied with federal compliance requirements. Since the Class Size Reduction program is only audited for approximately 33% of the LEAs, it is necessary that the Department have additional monitoring procedures in place.

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Finding 2002-17, Continued

This finding is considered to be a material weakness.

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.

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Finding 2002-18

Agency of Human Services – Department of Health

**Centers for Disease Control and Prevention - Investigations and Technical Assistance
(CFDA #93.283)**

Requirement

To provide reasonable assurance that matching requirements are met using only allowable funds or costs which are properly calculated and valued.

Finding

The Tobacco Prevention grant is a specialized program that is funded through the use of funds from the Centers for Disease Control and Prevention - Investigations and Technical Assistance program. The Tobacco Prevention grant agreement requires that the State spend \$1 from nonfederal funding sources for every federal \$1 spent. The Department meets its matching requirement through the use of allocated Tobacco Settlement funds that are budgeted to the Department on an annual basis. At the end of the grant period for the Tobacco Prevention grant, the program specialist prepares a spreadsheet that compares the total amount of Tobacco Settlement funds expended for the year to the amount of federal funds expended for the Tobacco Prevention grant to ensure that the necessary match has been met. During our review of this process, we noted that while the Department was in compliance with the matching requirement for fiscal year 2002, there is no supervisory review performed over the analysis prepared by the program specialist to help ensure that the data used to prepare the spreadsheet is accurate and that the requirement was met.

Questioned Costs

None.

Recommendation

We recommend that the Department implement the necessary control policies and procedures to adequately monitor the matching requirements of all grants to help ensure compliance.

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Finding 2002-19

Agency of Human Services – Department of Health

**Centers for Disease Control and Prevention - Investigations and Technical Assistance
(CFDA #93.283)**

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 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, OMB Circular A-110, Federal awarding agency program regulations, and the terms and conditions of the award.

Finding

The Department grants funds from its federal Tobacco Prevention Control Project to various non-profit organizations to support programs aimed at reducing and preventing tobacco use. All subrecipients are required to sign a grant agreement that outlines what the funding is to be used for, the total amount of funds being awarded and specific program requirements that must be met, such as the submission of financial or programmatic reports. During our testwork over subrecipient monitoring, we selected 7 of the 47 grantees and noted the following:

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Finding 2002-19, Continued

- A. Included in the signed grant agreement is a requirement that subrecipients have an A-133 audit if they expend more than \$300,000 in federal funds. During our discussions with the Department and review of the subrecipient files we noted that audit reports are not obtained. Although the grant awards are typically below the \$300,000 threshold requiring an A-133 audit, the Department has no mechanism in place to determine whether the subrecipient received awards from other State of Vermont sources that would have required them to have a single audit and submit a copy to the Department.
- B. Invoices were required to be submitted by 3 of the 7 subrecipients as a condition of receiving payment. During our review of the invoices we noted that there was no supporting documentation to substantiate the amounts being billed for and the invoices alone were not in sufficient detail to determine if the costs were allowable and in accordance with the grant agreement.
- C. Advance payments were made to 4 of the 7 subrecipients. During our review we noted that the Department does not appear to have procedure in place to monitor excess cash on hand.
- D. Various progress and year-end financial and programmatic reports are required to be submitted by the grantees. During our review of these reports, we noted the following:
 - 1. There were 2 instances where the required reports were not submitted to the Department. In both instances there was an undocumented verbal conversation concerning the status of the grant between the Grant Manager and the subrecipient.
 - 2. Although the Department requires these reports, there is no formal documentation to show that the Department has reviewed or approved them. In addition, the reports do not include documentation to determine whether the funds were spent on allowable activities.
- E. Although the Department has entered into grant agreements with these entities, many of the services being provided for are also consistent with a vendor relationship versus a subrecipient relationship. The Department should evaluate its method and criteria for making vendor/subrecipient determinations and ensure that the criteria is objectively and consistently applied
- F. Overall, the Department does not appear to have sufficient mechanisms in place to ensure that awarded funds are spent on allowable activities in accordance with the grant agreements.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

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Finding 2002-19, Continued

Recommendation

We recommend that the Department review its existing subrecipient monitoring policies and procedures and implement the necessary measures to adequately monitor the funds to help ensure that all subrecipient expenditures are allowable and in compliance with federal regulations.

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Finding 2002-20

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 childcare 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 childcare 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)).

Finding

Eligible childcare providers receive a regular monthly subsidy payment that is based on the standard hours of childcare provided to eligible children in a given month. In order to receive a subsidy payment, each childcare provider submits a justification sheet to the Child Care Services Division (CCSD) that details the actual number of hours of care provided to each child.

During our testwork over the monthly subsidies we selected a sample of 31 payments and noted the following:

- A. The monthly justification sheet for 1 of the providers selected could not be located.
- B. In 1 instance, CCSD reduced a payment to a provider in error, resulting in an underpayment.
- C. CCSD performs background checks on registered family childcare home providers, licensed childcare centers, and certified legally exempt providers. During our review we noted 1 instance where it was unclear whether an employee of a licensed center had a background check.
- D. In order for a provider to receive direct childcare payments, they must be licensed, registered, or authorized and assigned to specific families. In 2 instances we noted that providers had not been properly assigned to the families that they received payments for.

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Finding 2002-20, Continued

- E. Although providers receive instructions on how to complete the justification sheets, we noted several inconsistencies among how the forms are completed. For example, in some instances the total number of days the child was in attendance did not agree to the number of authorized days and the methods used by the providers to indicate the number of closed days, such as holidays, were not consistent.
- F. The State is required to send 1099 forms to providers who received direct payments totaling \$600 or more in a calendar year. During our review of this process, we noted that the Department of Finance and Management mistakenly sent 4 providers 1099 forms that should not have been sent as the providers were part of a business.

Questioned Costs

\$262.54 - represents the payment made to the provider in item A above, where there was no supporting justification sheet.

Recommendation

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

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Finding 2002-21

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 childcare 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 childcare 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)).

Finding

The Child Care Services Division (CCSD) grants funds to Community Child Care Agencies and other providers to enhance the quality and availability of childcare. Grants funds are awarded based on a formal proposal and review process and once the funds are distributed, recipients are required to report back on how the funds were spent.

During our testwork over the allowability of grant payments, we selected a sample of 15 grants and noted the following:

- A. Direct Service Grants are awarded to larger providers to procure for subsidized slots and specialized care. These grants are paid in 4 quarterly installments and the providers are required to submit monthly justification sheets to report the actual children and hours served. During our review of 7 Direct Service Grants we noted that CCSD does not routinely reconcile the quarterly payments made to the actual services provided as outlined on the justification sheets.
- B. Quality Incentive Grants are awarded to enhance and expand the quality of the childcare system in the State. During our review of 3 grants, we noted the following:

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Finding 2002-21, Continued

1. Although the grantees submitted financial reports to indicate how the funds were spent, we were unable to determine if CCSD had reviewed them. In addition, CCSD does not appear to have any documented mechanisms in place to ensure that the grant funds were expended on allowable activities in accordance with the grant agreement. Upon our request, CCSD reconciled the sample items back to the supporting documentation received from the grantees. In 1 instance, it was unclear how un-spent grant funds were rolled into the subsequent years grant award.
 2. In 1 instance the grantee was inadvertently not paid the second installment of their award. This payment was subsequently found as a result of our inquiring about the supporting documentation for this grant award.
- C. School Age Grants are awarded to providers to sustain and expand childcare services to school age children. During our review of 1 grant, we noted that although the grantee submitted a financial report to indicate how the funds were spent, we were unable to determine if CCSD had reviewed the report. In addition, CCSD does not appear to have any documented mechanisms in place to ensure that the grant funds were expended on allowable activities in accordance with the grant agreement.
- D. Mini Grants are awarded to assist providers with a wide array of activities that enhance childcare. During our review of 4 grants we noted that CCSD does not consistently reconcile payments made to actual expenses. Upon our request, CCSD reconciled the sample items back to the supporting documentation received from the grantees.

Questioned Costs

\$7,021 – Amount represents payments made where there was insufficient supporting documentation.

Quality Incentive Grant	\$	5,555
School Age Grant		<u>1,466</u>
	\$	<u>7,021</u>

Recommendation

We recommend that the Agency review its existing monitoring policies and procedures and implement the necessary measures to help ensure that grants are expended on allowable activities in accordance the grant agreements.

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Finding 2002-22

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, OMB Circular A-110, Federal awarding agency program regulations, and the terms and conditions of the award.

Finding

The Child Care Services Division (CCSD) contracts with 12 nonprofit Community Child Care Agencies (the grantees) to provide eligibility determination and quality activity services throughout the State. During our review of CCSD's subrecipient monitoring procedures, we selected 6 grantees and noted the following:

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Finding 2002-22, Continued

- A. The signed suspension and debarment certification could not be located for 1 of the grantees.
- B. CCSD conducts monthly file reviews to assess whether eligibility was accurately determined by the grantees. During the review CCSD uses Assessment I and Assessment II forms to document findings noted during the review and required follow-up, respectively. During our testing of 30 file reviews we noted 7 instances where the CCSD Grant Monitor did not complete an Assessment II form to follow up on findings noted during the review.
- C. The grantees are required to submit quarterly financial reports indicating how their grant funds are being spent. During our review of this process we noted that although CCSD obtains the reports, we were unable to determine if they were reviewed for completeness and appropriateness with the grant agreement.
- D. Grantees expending more than \$300,000 in federal funds are required to obtain an audit in accordance with OMB Circular A-133. During our review of the audit reports we noted 3 instances where the A-133 audit was not obtained from the grantees. In addition, it was unclear whether CCSD was reviewing the audit reports that were obtained.
- E. Overall we noted that the grantee files were not consistent in how and where information was filed. Although the files are clearly labeled as to where the documentation should be filed, in many instances the documentation was not located in the section indicated and there were several instances where there was loose paperwork located in the file. Additionally, it took a substantial amount of time to locate the necessary information needing to complete the testwork requirements and in some instances we needed the Operation Manager's assistance to locate file documentation.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency review its existing subrecipient monitoring policies and procedures and implement the necessary measures to adequately monitor grantees to help ensure that all expenditures are allowable and in compliance with federal regulations.

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Finding 2002-23

Agency of Human Services

Social Services Block Grant (CFDA #93.667)

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, OMB Circular A-110, Federal awarding agency program regulations, and the terms and conditions of the award.

Finding

Annually, the Agency of Human Services (the "Agency") allocates its Social Services Block Grant (SSBG) to various Departments, several of which pass-through funds to other grantees. During fiscal 2002, the Department of Developmental and Mental Health Services (DDMHS), the Central Office and the Department of Aging and Disabilities (DAD) passed-through part of their SSBG funds to subrecipients. During our review of each Department's subrecipient monitoring policies and procedures, we noted the following:

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Finding 2002-23, Continued

1. Department of Developmental and Mental Health Services

The Department grants funds to 21 subrecipients that perform Community Rehabilitation and Treatment Services and Community-Based Treatment and Support Services. During our review of 5 subrecipients, we noted the following:

- A. Subrecipients are paid on a monthly basis. During our review over cash payments made to each subrecipient, we noted that the Department does not reconcile the amount paid to the amount awarded to the grant agreement, which could result in overpayments made and excess cash on hand. As the Department does not track actual expenses incurred relating to SSBG funds, we were unable to determine if there were any excess funds on hand.
- B. The Department performs on-site fiscal reviews over subrecipients to ensure the accuracy of the financial and program data submitted. These on-site visits include reviewing the subrecipient's overall organizational structure, budgeting process, payroll expenses, related party transactions, cost allocations and receivable collections. Of the 5 subrecipients selected for testwork, none had an on-site review in the current year and only 1 had a review performed within the last five years. Upon further inquiry with the Department, it was noted that only 5 reviews had been performed within the last 5 years.

2. Central Office

The Central Office grants funds to 1 subrecipient that performs legal services. During our review of this subrecipient we noted the following:

- A. Although the subrecipient is required to submit quarterly financial statements we were unable to determine whether or not the reports were reviewed by the Central Office to ensure that they were accurate and properly supported program activities.
- B. Grant payments are made on a quarterly basis. During our review over cash payments made, we noted that the Central Office does not reconcile the amount paid to the amount awarded in the grant agreement, which could result in overpayments made and excess cash on hand.
- C. During our testwork over cash payments made, we noted that there was a segregation of duties issue as the same person within the Agency is responsible for both approval and issuance of payments.
- D. Central Office requires the subrecipient to submit annual audited financial statements and an A-133 audit report, which are reviewed and approved. During our testwork over the review process, we noted that SSBG was not included on the subrecipient's Schedule of Federal Expenditures as a pass-through grant. Upon inquiry of staff as to why, they were unclear as to this matter and had not followed up on the issue with the grantee.

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Finding 2002-23, Continued

- E. The Central Office does not conduct any on-site monitoring or other procedures to review the SSBG funding. Although the Central Office receives both internal and audited financial statements from the subrecipient, their monitoring of these items does not appear sufficient to ensure that awarded funds are spent on allowable activities in accordance with the grant agreement.

3. Department of Aging and Disabilities

During our review over the Department's subrecipient monitoring process for Homemaker Service providers, we selected 4 of the 13 subrecipients and noted the following:

- A. Subrecipients are required to submit monthly service reports which detail the number of hours spent working with individuals for which SSBG funding will be received. During our review of these reports, we were unable to determine whether the reports were reviewed by the Department to ensure that they were accurate and properly supported program activities.
- B. Subrecipients are required to have a financial statement and A-133 audit performed if their federal expenditures exceed \$300,000. Although the Department obtains the audit reports, they do not review them.
- C. The Department does not conduct any on-site monitoring or other procedures to review the SSBG funding. Although service reports, financial reports and audited financial statements are received from the subrecipients, the monitoring of these items does not appear sufficient to ensure that awarded funds are spent on allowable activities in accordance with the grant agreements

For Adult Day Service providers, we selected 4 of the 12 subrecipients and noted the following:

- D. The Department does not monitor actual expenditures relating to the SSBG program to ensure that the grant amounts paid do not exceed expenditures incurred. As such, we were unable to determine whether any of the subrecipients had excess funds on hand.

Homemaker and Adult Day Providers:

- E. Although the Department has entered into grant agreements with the entities above, the services being provided for are also consistent with a vendor relationship versus a subrecipient relationship. The Department should evaluate its method and criteria for making vendor/subrecipient determinations and ensure that the criteria is objectively and consistently applied.

This finding is considered to be a material weakness.

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Finding 2002-23, Continued

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency review its existing subrecipient monitoring policies and procedures and implement the necessary measures to adequately monitor the SSBG funds to help ensure that all subrecipient expenditures are allowable and in compliance with federal regulations.

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Finding 2002-24

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 within the 180 day requirement. Specifically, of the 10 long term care facility audits selected for testwork, all were being performed on the 2000 cost report data and reviews of the 2001 and 2002 audits had not yet begun.

On July 1, 2002 the Division of Rate Setting requested a rule change (approval still pending) to increase the time requirement from 180 days to 18 months. As of April 24, 2003, we noted that for the 1999 and 2000 fiscal years, the Division completed the reviews within an average of 375 and 537 days, respectively.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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Finding 2002-24, Continued

Questioned Costs

Not determinable.

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
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Finding 2002-25

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

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 Department 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 pre-procedural, pre-admission, retrospective, and concurrent reviews. In addition, Delmarva provides monthly, quarterly, and annual reports based on types of reviews performed.

During our testwork, we noted that the Department 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 Department 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 CMS (formerly HCFA) during their Fraud and Abuse Review conducted during May 2000.

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 order to ensure compliance with the above stated requirements.

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Finding 2002-26

Agency of Human Services – Medicaid Eligibility Quality Control Unit

Medical Assistance Program (CFDA #93.778)

Requirement

The State is required to operate a Medicaid Eligibility Quality Control System (MEQC) in accordance with requirements specified by CMS. The CMS-approved system determines 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 or terminated benefits. The MEQC system reviews the determination 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

During our test work over the Agency’s Medicaid Eligibility Quality Control (MEQC) system, we noted the following:

1. *Certification of Medicaid Eligibility Quality Control Payment Error forms are not submitted in a timely manner or not at all.*

Per CFR 431.816, “the agency must submit a report on its finding 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 since December 1999. In addition, we noted this was a finding during the CMS Management review conducted during July 2000.

2. *Corrective Action Plans are not submitted in a timely manner or not at all.*

The submission of the Certification of Medicaid Eligibility Quality Control Payment Error form notifies CMS of the error rate for the six-month period. If the error percentage is over the 3%, the Agency must file a corrective action plan. Per CFR 431.820.

“The agency must take action to correct any active or negative case action errors found in the sample cases; take administrative action to prevent or reduce the incidences of those errors; and by September 15 of each year, submit to CMS a report on it’s error rate analysis and a corrective action plan based on that analysis. The agency must submit revisions to plan within 60 days of identification of additional error-prone areas, other significant changes in the error rate (that is, changes that the State experiences that increase or decrease it’s error rate and necessitate immediate corrective action or discontinuance of corrective actions that effectively control the cause of the error rate change), or changes in planned corrective action.”

STATE OF VERMONT
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Finding 2002-26, Continued

During our testwork, we noted that the error rate reports for October 1999 to March 2000 and April 2000 to September 2000 were submitted to CMS on February 26, 2002. The reports for October 2000 to March 2001 to the present have not been filed. It was noted that the reports filed on February 26, 2002 had error rates below 3.0% and corrective action plans were not necessary. In addition, we noted this was a finding during the CMS Management review conducted during July 2000. CMS assessed the accuracy of Vermont's quality control review findings by conducting reviews of some of the State's cases from the April 1998 – September 1998 review period and found payment errors. The results revealed mistakes on the part of the State's in nearly all of them, which are summarized as follows:

- a. Incorrect calculation of initial case liability understated errors.
- b. Failure to distinguish between "liability understated" and "liability overstated" errors in the final payment determination.
- c. Transcription errors.

CMS notes that without accurate determinations for State-reviewed cases, MEQC error rates have little to no validity.

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. Quality control reviewers must review the proper methods for making accurate eligibility determinations and apply these methods to each and every case in the sample.

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Finding 2002-27

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

Medical Assistance Program (CFDA # 93.778)

Requirement

The State agency is required to maintain or supervise the maintenance of records necessary for the proper and efficient operation of the Plan, including records regarding applications, determination of eligibility, the provision of medical assistance, and administrative costs, and statistical, fiscal and other records necessary for reporting and accountability and retains these records in accordance with Federal requirements (42 CFR 431.17).

Finding

All eligibility determinations for the Medicaid program are performed through the District Offices for the Department of Prevention, Assistance, Transition and Health Access (PATH) located throughout the State. Applicants are required to complete an initial application for services and provide supporting documentation for items such as income earned. PATH utilizes the ACCESS system, the State's Medicaid eligibility system to help determine the applicant's eligibility. All Medicaid claims are processed by EDS, the State's external claims processor.

During our testwork over allowability of Medicaid costs paid during the period of June 30, 2002 and the eligibility of those claimants, we noted that 5 out of the 60 files selected for testwork had incomplete or inconsistent data to support the eligibility determination. Specifically the following was noted:

- A. 3 of the 5 files did not contain the appropriate Medicaid application during the period of service being tested.
- B. 1 of the 5 files contained an application that was not signed or dated by the applicant.
- C. 1 of the 5 files contained inconsistent information between the ACCESS system and the file.
- D. 1 of the participant's files did not contain the appropriate eligibility information, which led to an applicant being granted Medicaid coverage when they did not meet the eligibility requirements. The Medicaid requirement for eligibility regarding aliens states that "a qualified alien who is a legal permanent resident entered the United States before August 22, 1996 or has been in the United States at least five years (is eligible)" (per the Policy M 311.3). This participant has been receiving services under the Home Based Medicaid Waiver for Elders and Adults with Disabilities since January 20, 1999.

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Finding 2002-27, Continued

Questioned Costs

\$208,144 – represents amount of claims paid in fiscal years 1999 through 2002 for the ineligible claimant.

Recommendation

We recommend that the Agency implement the necessary policies and procedures to help ensure compliance with the Medicaid eligibility requirements.

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Finding 2002-28

Agency of Human Services – Medicaid Eligibility Quality Control Unit

Medical Assistance Program (CFDA 97.778)

Requirement

The State is required to operate a Medicaid Eligibility Quality Control System (MEQC) in accordance with requirements specified by CMS. The CMS-approved system determines 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 or terminated benefits. The MEQC system reviews the determination 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

During our testwork over the Agency’s Medicaid Eligibility Quality Control (MEQC) system, we noted a coding error in the system which miscodes committed children, who receive Medicaid benefits, with foster care children, who receive Title “IV-E” funds. The effect of the error is that some cases categorized as “IV-E” are being erroneously included in the population from which the sample is drawn. These cases are not supposed to be subject to sampling and must be dropped as a part of the review process. In addition, we noted this was a finding during the CMS Management review conducted during July 2000.

The Agency corrected the coding error effective October 1, 2002, re-sampled and submitted final reports to CMS in April 2003.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency implement a procedure to ensure that the MEQC universe files have accurate identifiers to ensure that the system will give an accurate sample selection for the Medicaid QC sample.