



STATE OF VERMONT

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

Year ended June 30, 2006

STATE OF VERMONT

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

Year ended June 30, 2006

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The Comprehensive Annual Financial Report of the State of Vermont for the Year Ended June 30, 2006 was issued under separate cover by the Office of the State Auditor, State of Vermont	
The Report on Internal Control Over Financial Reporting and on Compliance and Other Matters and Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> for the Year Ended June 30, 2006 was issued under separate cover by the Office of the State Auditor, State of Vermont	



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**Independent Auditors' Report on the
Schedule of Expenditures of Federal Awards**

Speaker of the House of the Representatives Gaye Symington
President Pro-Tempore of the Senate Peter Shumlin
Governor James H. Douglas
General Assembly, State of Vermont
State House
Montpelier, Vermont

As contracted auditors for the Office of the State Auditor, State of Vermont, we have audited the accompanying schedule of expenditures of federal awards of the State of Vermont (the Schedule) for the year ended June 30, 2006. This Schedule is the responsibility of the State of Vermont's management. Our responsibility is to express an opinion on this Schedule based on our audit.

We conducted our audit 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 is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting of the Schedule. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. 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 to the schedule of expenditures of federal awards, the Schedule does not include expenditures of federal awards for those entities determined to be component units of the State of Vermont for financial statement purposes. Each of these entities has their own independent audit in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the expenditures of federal awards of the State of Vermont, as described above, for the year ended June 30, 2006 in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2007 on our consideration of the State of Vermont's internal control over financial reporting of the Schedule and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

March 30, 2007

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

CFDA number	Federal agency/program title	Expenditures	Amounts passed through to subrecipients
US Department of Agriculture:			
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 623,751	—
10.156	Federal State Marketing Improvement Program	22,344	—
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	541,362	—
10.551	Food Stamps (Cash)	8,329,812	—
10.551	Food Stamps (EBT)	39,981,611	—
10.553	School Breakfast Program	3,241,023	3,238,231
10.555	National School Lunch Program	9,743,412	9,734,637
10.556	Special Milk Program for Children	72,017	71,942
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	11,717,443	15,716
10.558	Child and Adult Care Food Program	4,050,312	4,013,691
10.559	Summer Food Service Program for Children	397,854	380,885
10.560	State Administrative Expenses for Child Nutrition	351,775	—
10.561	State Administrative Matching Grants for Food Stamp Program	6,357,525	1,007,863
10.565	Commodity Supplemental Food Program	248,429	248,429
10.568	Emergency Food Assistance Program (Administrative Costs)	92,882	—
10.572	WIC Farmers' Market Nutrition Program (FMNP)	78,858	—
10.576	Senior Farmers Market Nutrition Program	79,507	63,088
10.664	Cooperative Forestry Assistance	1,509,067	199,346
10.676	Forest Legacy Program	1,349,531	—
10.769	Rural Business Enterprise Grants	43,146	—
10.902	Soil and Water Conservation	82,828	—
10.999	Organic Certification – Handlers	900	—
10.999	Organic Certification – Producers	109,834	—
10.999	Dietary Guidelines	91,212	42,660
		89,116,435	19,016,488
US Department of Commerce:			
11.407	Interjurisdictional Fisheries Act of 1986 (NOAA)	14,204	22,995
US Department of Defense:			
12.002	Procurement Technical Assistance For Business Firms	179,214	—
12.100	Aquatic Plant Control	344,799	169,297
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	22,033	—
12.401	National Guard Military Operations and Maintenance (O&M) Projects	9,659,197	—
12.404	National Guard Civilian Youth Opportunities	467,903	—
		10,673,146	169,297
US Department of Housing and Urban Development:			
14.228	Community Development Block Grants / State's Program	7,942,614	7,817,151
14.231	Emergency Shelter Grants Program	346,932	344,841
14.239	HOME Investment Partnerships Program	4,369,315	—
14.999	Office of Fair Housing – Capacity Building	179,691	24,308
		12,838,552	8,186,300
US Department of the Interior:			
15.605	Sport Fish Restoration	3,047,752	—
15.608	Fish and Wildlife Management Assistance	100,516	85,324
15.611	Wildlife Restoration	1,188,196	—
15.615	Cooperative Endangered Species Conservation Fund	17,391	—
15.622	Sportfishing and Boating Safety Act	148,113	—
15.625	Wildlife Conservation and Restoration	38,756	1,432
15.631	Partners for Fish and Wildlife	41,428	24,845
15.633	Landowner Incentive	17,162	—
15.634	State Wildlife Grants	471,020	187,891
15.810	National Cooperative Geologic Mapping Program	72,267	3,097
15.904	Historic Preservation Fund Grants-In-Aid	531,687	42,264
15.916	Outdoor Recreation – Acquisition, Development and Planning	402,095	506,234
15.999	Historic Preservation-National Park Service-Mount Independence ADA Trail Project	41	—
		6,076,424	851,087

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

CFDA number	Federal agency/program title	Expenditures	Amounts passed through to subrecipients
US Department of the Justice:			
16.007	State Domestic Preparedness Equipment Support Program	\$ 2,847,170	2,080,375
16.523	Juvenile Accountability Incentive Block Grants	358,616	67,414
16.527	Supervised Visitation, Safe Havens for Children	138,627	—
16.540	Juvenile Justice and Delinquency Prevention – Allocation to States	717,659	670,166
16.541	Part E – Developing, Testing and Demonstrating Promising New Programs	5,354	—
16.547	Victims of Child Abuse	93,931	—
16.550	State Justice Statistics Program for Statistical Analysis Centers	20,110	20,110
16.554	National Criminal History Improvement Program (NCHIP)	524,296	221,622
16.560	National Institute of Justice Research, Evaluation and Development Project Grants	545,576	—
16.564	Crime Laboratory Improvement – Combined Offender DNA Index System Backlog Reduction	7,894	—
16.575	Crime Victim Assistance	1,256,429	1,302,418
16.576	Crime Victim Compensation	208,610	—
16.579	Byrne Memorial Formula Grant Program	1,599,864	983,361
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	406,208	308,444
16.585	Drug Court Discretionary Grant Program	83,063	—
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	1,281,730	754,215
16.588	Violence Against Women Formula Grants	817,612	745,523
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	498,509	445,957
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	447,710	526,489
16.592	Local Law Enforcement Block Grant Program	90,195	—
16.593	Residential Substance Abuse Treatment for State Prisoners	279,135	—
16.607	Bulletproof Vest Partnership Program	24,217	279,135
16.609	Community Prosecution and Project Safe Neighborhoods	244,167	96,458
16.613	Scams Targeting the Elderly	25,883	—
16.710	Public Safety Partnership and Community Policing Grants	1,426,594	182,717
16.727	Enforcing Underage Drinking Laws Program	250,734	153,553
16.735	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	113,384	—
16.738	Edward Byrne Memorial Justice Assistance Grant Program	259,753	55,761
16.999	Drug Enforcement Administration – DEA	6,949	—
16.999	New England High-Intensity Drug Trafficking Areas (HIDTA)	39,006	—
16.999	Marijuana Education	19,838	—
		14,638,823	8,893,718
US Department of Labor:			
17.002	Labor Force Statistics	675,769	—
17.005	Compensation and Working Conditions	27,914	—
17.207	Employment Service / Wagner-Peyser Funded Activities	2,910,321	—
17.225	Unemployment Insurance	83,557,156	—
17.235	Senior Community Service Employment Program (SCSEP)	483,144	468,147
17.245	Trade Adjustment Assistance	455,980	—
17.258	WIA Adult Program	1,818,621	—
17.259	WIA Youth Activities	2,088,328	161,831
17.260	WIA Dislocated Workers	1,248,336	—
17.261	WIA Pilots, Demonstrations, and Research Projects	693,523	591,004
17.266	Work Incentive Grants	698,818	34,768
17.503	Occupational Safety and Health – State Program	725,300	—
17.504	Consultation Agreements	365,703	—
17.720	Disability Employment Policy Development	625,258	582,797
17.801	Disabled Veterans' Outreach Program (DVOP)	160,527	—
17.804	Local Veterans' Employment Representative Program	286,391	—
		96,821,089	1,838,547
US Department of State:			
19.999	Help America Vote Act	947,453	—
US Department of Transportation:			
20.106	Airport Improvement Program	2,767,926	101,203
20.205	Highway Planning and Construction	129,163,700	23,123,896
20.218	National Motor Carrier Safety	1,430,678	260,196
20.219	Recreational Trails Program	611,428	312,781
20.500	Federal Transit – Capital Investment Grants	1,384,098	1,429,912
20.505	Federal Transit – Metropolitan Planning Grants	298,126	298,126
20.509	Formula Grants for Other Than Urbanized Areas	5,720,528	5,925,946
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	117,809	127,005
20.514	Public Transportation Research	623,018	604,732
20.515	State Planning and Research	33,654	—

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

CFDA number	Federal agency/program title	Expenditures	Amounts passed through to subrecipients
20.600	State and Community Highway Safety	\$ 2,644,910	2,278,508
20.700	Pipeline Safety	96,497	—
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	44,038	32,576
20.999	Law Enforcement Personnel Reimbursement (TSA)	97,645	97,645
20.999	Fatal Accident Reporting System	21,432	—
		<u>145,055,487</u>	<u>34,592,526</u>
21.999	US Department of the Treasury: Bordergap	3,064	—
30.002	US Equal Employment Opportunity Commission: Employment Discrimination – State and Local Fair Employment Practices Agency Contract:	61,200	—
45.310	US National Foundation on the Arts and the Humanities: State Library Program	684,756	44,857
64.124	US Department of Veterans Affairs: All-Volunteer Force Educational Assistance	31,037	—
66.032	US Environmental Protection Agency: State Indoor Radon Grants	85,511	8,500
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	278,918	—
66.436	Surveys, Studies, Investigations, Demonstrations and Training Grants and Cooperative Agreements – Section 104(B)(3) of the Clean Water Act	46,088	—
66.454	Water Quality Management Planning	82,748	26,686
66.458	Capitalization Grants for Clean Water State Revolving Funds	5,054,885	—
66.463	Water Quality Cooperative Agreements	32,878	10,000
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	30,472	—
66.468	Capitalization Grants for Drinking Water State Revolving Fund	7,891,914	169,070
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	157,154	28,972
66.474	Water Protection Grants to the States	35,331	—
66.481	Lake Champlain Basin Program	417,613	55,500
66.500	Environmental Protection – Consolidated Research	34,320	—
66.511	Office of Research and Development Consolidated Research/Training	83,639	—
66.605	Performance Partnership Grants	5,334,089	591,355
66.606	Surveys, Studies, Investigations and Special Purpose Grants	57,717	48,150
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	205,139	—
66.611	Environmental Policy and Innovation Grants	98,505	—
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	353,501	—
66.701	Toxic Substance Compliance Monitoring Cooperative Agreements	117,226	—
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	15,218	—
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	63,718	—
66.805	Leaking Underground Storage Tank Trust Fund Program	682,877	—
66.808	Solid Waste Management Assistance Grants	38,914	20,300
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	113,967	—
66.811	Brownfields Pilots Cooperative Agreement	240,406	—
66.817	State and Tribal Response Program Grants	609,870	47,089
66.951	Environmental Education Grants	8,000	8,000
		<u>22,170,618</u>	<u>1,013,622</u>
81.039	US Department of Energy: National Energy Information Center	1,577	—
81.041	State Energy Program	718,153	588,420
81.042	Weatherization Assistance for Low – Income Persons	1,135,599	1,120,380
81.079	Regional Biomass Energy Programs	1,712	—
		<u>1,857,041</u>	<u>1,708,800</u>
83.536	US Federal Emergency Management Agency: Flood Mitigation Assistance	129,210	129,210
83.544	Public Assistance Grants	276,926	276,717
83.557	Pre-Disaster Mitigation	46,559	48,773
83.564	Citizencorps	86,015	83,425
		<u>538,710</u>	<u>538,125</u>

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

CFDA number	Federal agency/program title	Expenditures	Amounts passed through to subrecipients
US Department of Education:			
84.002	Adult Education – State Grant Program	\$ 1,112,614	967,756
84.010	Title I Grants to Local Educational Agencies	27,663,753	27,215,062
84.011	Migrant Education – State Grant Program	820,324	728,838
84.013	Title I Program for Neglected and Delinquent Children	360,813	356,243
84.027	Special Education – Grants to States	22,461,661	20,878,628
84.048	Vocational Education – Basic Grants to States	3,992,671	3,629,869
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	8,397,883	275,249
84.169	Independent Living – State Grants	240,190	161,008
84.173	Special Education – Preschool Grants	883,606	772,914
84.177	Rehabilitation Services – Independent Living Services for Older Individuals Who are Blind	318,127	168,750
84.181	Special Education – Grants for Infants and Families with Disabilities	2,160,317	73,981
84.184	Safe and Drug-Free Schools and Communities – National Programs	32,750	14,183
84.185	Byrd Honors Scholarships	79,500	79,500
84.186	Safe and Drug-Free Schools and Communities – State Grants	2,238,314	2,188,487
84.187	Supported Employment Services for Individuals with Severe Disabilities	313,746	—
84.196	Education for Homeless Children and Youth	153,827	113,004
84.213	Even Start – State Educational Agencies	1,018,809	961,777
84.215	Fund for the Improvement of Education	224,088	135,467
84.224	Assistive Technology	299,438	—
84.235	Rehabilitation Services Demonstration and Training Programs	482,100	51,922
84.243	Tech-Prep Education	351,380	337,630
84.255	Literacy Programs for Prisoners	291,754	—
84.265	Rehabilitation Training – State Vocational Rehabilitation Unit In-Service Training	64,480	—
84.287	Twenty-First Century Community Learning Centers	5,677,971	5,550,511
84.298	State Grants for Innovative Programs	1,310,231	1,099,711
84.318	Education Technology State Grants	3,008,113	2,887,244
84.323	Special Education – State Personnel Development	369,892	350,392
84.330	Advanced Placement Program	8,208	—
84.332	Comprehensive School Reform Demonstration	686,329	661,185
84.346	Vocational Education – Occupational and Employment Information State Grants	117,258	—
84.357	Reading First State Grants	2,881,631	2,684,938
84.365	English Language Acquisition Grants	506,577	382,913
84.366	Mathematics and Science Partnerships	516,098	470,489
84.367	Improving Teacher Quality State Grants	13,772,333	13,406,978
84.369	Grants for State Assessments and Related Activities	2,586,517	—
		105,403,303	86,604,629
US Department of Health and Human Services:			
93.003	Public Health and Social Services Emergency Fund	1,763,482	1,338,174
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	24,199	24,000
93.041	Special Programs for the Aging – Title VII, Chapter 3 – Programs for Prevention of Elder Abuse, Neglect, and Exploitation	25,369	25,369
93.042	Special Programs for the Aging – Title VII, Chapter 2 – Long Term Care Ombudsman Services for Older Individuals	70,101	70,101
93.043	Special Programs for the Aging – Title III, Part D – Disease Prevention and Health Promotion Services	116,835	116,835
93.044	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	1,636,285	1,636,285
93.045	Special Programs for the Aging – Title III, Part C -Nutrition Services	2,292,351	2,292,351
93.048	Special Programs for the Aging – Title IV and Title III – Discretionary Projects	183,467	166,969
93.051	Alzheimer's Disease Demonstration Grants to States	294,594	243,600
93.052	National Family Caregiver Support	722,544	386,559
93.053	Nutrition Services Incentive Program	508,993	508,993
93.110	Maternal and Child Health Federal Consolidated Programs	441,027	69,382
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	159,320	9,720
93.127	Emergency Medical Services for Children	100,406	8,000
93.130	Primary Care Services Resource Coordination and Development	127,087	42,000
93.136	Injury Prevention and Control Research and State and Community Based Programs	187,813	85,439
93.150	Projects for Assistance in Transition from Homelessness (PATH)	284,134	269,471
93.184	Disabilities Prevention	105,585	69,947
93.197	Childhood Lead Poisoning Prevention Projects-State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	348,624	—
93.217	Family Planning – Services	891,598	873,288
93.230	Consolidated Knowledge Development and Application (KD&A) Program	89,551	—
93.234	Traumatic Brain Injury State Demonstration Grant Program	236,025	—
93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies and Enhancement	58,139	—

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

CFDA number	Federal agency/program title	Expenditures	Amounts passed through to subrecipients
93.241	State Rural Hospital Flexibility Program	\$ 284,944	199,552
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	303,403	232,912
93.251	Universal Newborn Hearing Screening	70,614	53,500
93.256	State Planning Grants for Health Care Access for the Uninsured	154,331	—
93.259	Rural Access to Emergency Devices Grant	47,638	19,088
93.268	Immunization Grants	2,308,480	48,986
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	12,108,118	947,291
93.301	Small Rural Hospital Improvement Grant Program	109,137	108,023
93.556	Promoting Safe and Stable Families	943,461	187,031
93.558	Temporary Assistance for Needy Families	34,966,471	2,434,186
93.563	Child Support Enforcement	6,806,021	—
93.566	Refugee and Entrant Assistance – State Administered Programs	292,867	255,998
93.568	Low-Income Home Energy Assistance	14,268,084	1,581,742
93.569	Community Services Block Grant	3,510,166	3,325,018
93.575	Child Care and Development Block Grant	12,249,362	—
93.576	Refugee and Entrant Assistance – Discretionary Grants	138,606	85,210
93.583	Refugee and Entrant Assistance – Wilson/Fish Program	62	—
93.586	State Court Improvement Program	107,133	—
93.590	Community-Based Child Abuse Prevention Grants	306,757	203,500
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	6,957,682	1,419,151
93.597	Grants to States for Access and Visitation Programs	61,754	61,754
93.599	Chafee Education and Training Vouchers Program (ETV)	123,826	—
93.600	Head Start	183,839	—
93.603	Adoption Incentive Payments	150,000	—
93.617	Voting Access for Individuals with Disabilities – Grants to States	78,930	78,922
93.630	Developmental Disabilities Basic Support and Advocacy Grants	486,618	303,705
93.631	Developmental Disabilities Projects of National Significance	181,445	181,421
93.643	Children’s Justice Grants to States	73,897	—
93.645	Child Welfare Services – State Grants	623,866	—
93.658	Foster Care – Title IV-E	11,145,044	—
93.659	Adoption Assistance	6,641,332	—
93.667	Social Services Block Grant	8,352,632	991,344
93.669	Child Abuse and Neglect State Grants	12,607	—
93.671	Family Violence Prevention and Services/Grants for Battered Women’s Shelters – Grants to States and Indian Tribes	707,196	717,446
93.674	Chafee Foster Care Independence Program	524,888	—
93.767	State Children’s Insurance Program	3,229,385	—
93.768	Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	506,642	104,614
93.775	State Medicaid Fraud Control Units	431,262	—
93.777	State Survey and Certification of Health Care Providers and Suppliers	1,107,935	—
93.778	Medical Assistance Program	568,757,911	4,594,698
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	1,129,447	282,813
93.786	State Pharmaceutical Assistance Programs	228,767	205,000
93.794	Reimbursement of State Costs for Provision of Part D Drugs	5,926,649	—
93.913	Grants to States for Operation of Offices of Rural Health	148,583	47,779
93.917	HIV Care Formula Grants	919,727	327,674
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	498,806	150,018
93.940	HIV Prevention Activities – Health Department Based	1,597,789	814,116
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	109,155	10,000
93.945	Assistance Programs for Chronic Disease Prevention and Control	138,443	—
93.958	Block Grants for Community Mental Health Services	816,846	664,321
93.959	Block Grants for Prevention and Treatment of Substance Abuse	5,090,753	4,432,710
93.977	Preventive Health Services – Sexually Transmitted Disease Control Grants	178,472	42,000
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	247,765	25,657
93.991	Preventive Health and Health Services Block Grant	279,091	61,625
93.994	Maternal and Child Health Services Block Grant to the States	1,718,783	755,457
93.999	ADAP Data Collection	32,296	17,123
		<u>729,043,247</u>	<u>34,207,868</u>

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2006

CFDA number	Federal agency/program title	Expenditures	Amounts passed through to subrecipients
	US Corporation for National Community Service:		
94.003	State Commissions	\$ 130,345	—
94.004	Learn and Serve America-School and Community Based Program:	16,718	16,715
94.006	AmeriCorps	1,054,481	1,068,308
94.007	Planning and Program Development Grants	12,570	—
94.009	Training and Technical Assistance	85,071	—
		<u>1,299,185</u>	<u>1,085,023</u>
	US Social Security Administration:		
96.001	Social Security – Disability Insurance	3,253,843	—
	US Department of Homeland Security:		
97.004	State Domestic Preparedness Equipment Support Program	6,779,912	4,935,610
97.012	Boating Safety Financial Assistance	346,041	—
97.017	Pre Disaster Mitigation (PDM) Competitive Grants	118,988	90,637
97.021	Hazardous Materials Assistance Program	28,097	—
97.023	Community Assistance Program State Support Services Element (CAP – SSSE)	68,320	—
97.029	Flood Mitigation Assistance	10,519	10,322
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)	364,826	364,826
97.039	Hazard Mitigation Grant	161,482	147,921
97.041	National Dam Safety Program	18,082	—
97.042	Emergency Management Performance Grants	851,065	—
97.043	State Fire Training Systems Grants	11,245	—
97.067	Homeland Security Grant Program	6,415,344	5,610,991
97.070	Map Modernization Management Support	55,633	10,601
		<u>15,229,554</u>	<u>11,170,908</u>
	Total Monetary Federal Financial Assistance	<u>1,255,757,171</u>	<u>209,944,790</u>
	Nonmonetary Awards:		
10.555	National School Lunch Program	1,689,268	—
10.558	Child and Adult Care Food Program	13,781	—
10.569	Emergency Food Assistance Program (Food Commodities)	675,086	—
39.003	Donation of Federal Surplus Personal Property	952,885	35,665
93.268	Immunization Grants	4,417,891	—
	Total Nonmonetary Federal Financial Assistance	<u>7,748,911</u>	<u>35,665</u>
	Total Federal Financial Aid Expended	<u>\$ 1,263,506,082</u>	<u>209,980,455</u>

See accompanying notes to schedule of expenditures of federal awards.

STATE OF VERMONT

Notes to Schedule of Expenditures of Federal Awards

June 30, 2006

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of the State of Vermont (the State) applied in the preparation of the Schedule of Expenditures of Federal Awards (the Schedule) are set forth below:

(a) *Single Audit Reporting Entity*

For purposes of complying with the Single Audit Act Amendments of 1996, the State includes all entities that are considered part of the primary government, as described in the basic financial statements as of and for the year ended June 30, 2006. The Schedule does not include component units identified in the notes to the basic financial statements issued by the Office of the State Auditor of the State of Vermont.

The entities listed below are Discretely Presented Component Units in the State's basic financial statements, which received federal financial assistance for the year ended June 30, 2006. Each of these entities is subject to separate audits in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

The federal transactions of the following entities are not reflected in this Schedule:

Vermont Student Assistance Corporation	Vermont Municipal Bond Bank
University of Vermont	Vermont Center for Geographic Information
Vermont State College System	Vermont Sustainable Jobs Fund, Inc
Vermont Educational and Health Buildings Financing Agency	Vermont Transportation Authority
Vermont Housing and Conservation Board	Vermont Veterans' Home
Vermont Economic Development Authority	Vermont Rehabilitation Corporation

(b) *Basis of Presentation*

The information in the accompanying Schedule is presented in accordance with Office of Management and Budget OMB Circular A-133.

1. *Federal Awards* – Pursuant to the Single Audit Act Amendments of 1996 and OMB Circular A-133, federal awards are defined as assistance that nonfederal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, food commodities, direct appropriations or other assistance and therefore, is reported on the Schedule. Federal awards do not include direct federal cash payments to individuals.
2. *Type A and Type B Programs* – OMB Circular A-133 establishes the levels of expenditures to be used in defining Type A and Type B federal programs. Type A programs for the State of Vermont are those programs, or clusters of programs, which equal or exceed \$3,790,520 in expenditures, distributions, or issuances for the fiscal year ended June 30, 2006.

(c) *Basis of Accounting*

The accompanying Schedule was prepared on the modified accrual basis of accounting.

STATE OF VERMONT

Notes to Schedule of Expenditures of Federal Awards

June 30, 2006

(d) Matching Costs

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

(2) Categorization of Expenditures

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

(3) Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency.

(4) Unemployment Insurance (CFDA #17.225)

State unemployment tax revenues must be deposited to the Unemployment Trust Fund in the U.S. Treasury and may only be used to pay benefits under the federally approved State unemployment law. 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	\$ 76,781,055
Federal	<u>6,776,101</u>
	<u>\$ 83,557,156</u>

(5) Airport Improvement Program (CFDA #20.106)

The State receives Federal Aviation Administration (FAA) funds from the U.S. Department of Transportation. The State excludes from its Schedule FAA funds received on behalf of the City of Burlington, Vermont (the City), because the State does not perform any program responsibilities or oversight of these funds. Rather its sole function is to act as a conduit between the federal awarding agency and the City, who owns and operates the airport.

(6) Reimbursement of State Costs for Provision of Part D Drugs (CFDA #93.794)

The total federal costs of the Reimbursement of State Costs for Provision of Part D Drugs program incurred during the year ended June 30, 2006 were \$9,667,434. As of the date the Schedule was compiled, only \$5,926,649 had been reimbursed to the State, and as such, this amount was recorded on the Schedule. Any future amounts that are reimbursed pertaining to costs incurred during the period ending June 30, 2006 will be claimed on future Schedules.

STATE OF VERMONT

Notes to Schedule of Expenditures of Federal Awards

June 30, 2006

(7) **Nonmonetary Federal Financial Assistance**

The State is the recipient of federal programs that do not result in cash receipts or disbursements. Noncash awards included in the Schedule are as follows:

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

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

(b) ***Child and Adult Food Care Program (CFDA #10.558)***

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 the Child and Adult Food Care Program, represent the federal government's acquisition value of the food commodities provided to the State.

(c) ***Emergency Food Assistance Program (CFDA #10.569)***

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 the Emergency Food Assistance Program, represent the federal government's acquisition value of the food commodities provided to the State.

(d) ***Donation of Federal Surplus Personal Property (CFDA #39.003)***

The State obtains surplus property from various federal agencies at no cost. The property is then sold by the State to eligible organizations for a nominal service charge. Total federal expenditures included in the Schedule for the Donation of Federal Surplus Personal Property, represent the federal government's acquisition value of the federal property sold by the State.

(e) ***Immunization Grants (CFDA #93.268)***

To assist 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 the Immunization Grants, represent the federal government's acquisition value of the vaccines provided to the State.



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**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of the Schedule
of Expenditures of Federal Awards Performed in Accordance With *Government Auditing Standards***

Speaker of the House of the Representatives Gaye Symington
President Pro-Tempore of the Senate Peter Shumlin
Governor James H. Douglas
General Assembly, State of Vermont
State House
Montpelier, Vermont

As contracted auditors for the Office of the State Auditor, the State of Vermont, we have audited the schedule of expenditures of federal awards (the Schedule) of the State of Vermont (the State) as of and for the year ended June 30, 2006, and have issued our report thereon dated March 30, 2007. We conducted our audit 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.

As described in note 1 to the schedule of expenditures of federal awards, the Schedule does not include expenditures of federal awards for those entities determined to be component units of the State of Vermont for financial statement purposes. Each of these entities has their own independent audit in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting of the Schedule in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule and not to provide an opinion on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's schedule of expenditures of federal awards is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an

opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Speaker of the House of the Representatives, the President Pro-Tempore of the Senate, the Governor, 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. However, this report is a matter of public record, and its distribution is not limited.

KPMG LLP

March 30, 2007



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**Auditors' Report on Compliance With Requirements
Applicable to Each Major Program, and Internal Control
Over Compliance in Accordance With OMB Circular A-133**

Speaker of the House of the Representatives Gaye Symington
President Pro-Tempore of the Senate Peter Shumlin
Governor James H. Douglas
General Assembly, State of Vermont
State House
Montpelier, Vermont

Compliance

We have audited the compliance of the State of Vermont (the State) 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, 2006. 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. 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.

The schedule of expenditures of federal awards and our audit described below does not include expenditures of federal awards for those entities determined to be component units of the State of Vermont for financial statement purposes. Each of these entities has their own independent audit in compliance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

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.

As identified below and described in the accompanying schedule of findings and questioned costs, the State did not comply with certain compliance requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the State of Vermont to comply with requirements applicable to the identified major federal programs.

State agency/ department name	Federal program name	Compliance requirements	Finding number
Agency of Human Services	Food Stamp Cluster	Subrecipient Monitoring	06-01
Agency of Human Services	Special Supplemental Program for Women, Intants and Children	Suspension and Debarment	06-02
Department of the Military	National Guard Military Operations and Maintenance Projects	Procurement and Suspension and Debarment	06-04
Agency of Natural Resources	Fish and Wildlife Cluster	Suspension and Debarment	06-05
Department of Public Safety	Public Safety Partnership and Community Policing Grants	Suspension and Debarment	06-06
Department of Labor	Employment Services Cluster	Suspension and Debarment	06-07
Department of Labor	Unemployment Insurance	Suspension and Debarment	06-08
Department of Labor	WIA Cluster	Suspension and Debarment	06-09
Agency of Transportation	Highway Planning and Construction	Subrecipient Monitoring	06-10
Agency of Natural Resources	Performance Partnership Grants	Subrecipeint Monitoring	06-17
Agency of Human Services	Immunization Grants	Subrecipient Monitoring	06-18
Agency of Human Services	Immunization Grants	Special Tests and Provisions	06-19
Agency of Human Services	Immunization Grants	Suspension and Debarment	06-20
Agency of Human Services	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Suspension and Debarment	06-21
Agency of Human Services	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Subrecipeint Monitoring	06-22
Agency of Human Services	Temporary Assistance for Needy Families	Subrecipient Monitoring	06-23

State agency/ department name	Federal program name	Compliance requirement	Finding number
Agency of Human Services	Medical Assistance Program	Allowable Costs/Cost Principles	06-24
Agency of Human Services	Medical Assistance Program	Allowable Costs/Cost Principles	06-25
Agency of Human Services	Medical Assistance Program	Eligibility	06-26
Agency of Human Services	Medical Assistance Program	Allowable Costs/Cost Principles	06-27
Agency of Human Services	Medical Assistance Program	Special Tests and Provisions	06-28
Agency of Human Services	Medical Assistance Program	Special Tests and Provisions	06-30
Agency of Human Services	Medical Assistance Program	Eligibility, Procurement, Suspension and Debarment, Special Tests and Provisions	06-31
Agency of Human Services	Reimbursement of State Costs for Provision of Part D Drugs	Allowable Costs/Cost Principles and Special Tests and Provisions	06-32
Agency of Human Services	Block Grant for the Prevention and Treatment of Substance Abuse	Subrecipient Monitoring	06-33
Agency of Human Services	Block Grant for the Prevention and Treatment of Substance Abuse	Suspension and Debarment	06-34
Department of Public Safety	Homeland Security Cluster	Suspension and Debarment	06-36

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, 2006. 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 findings and questioned costs as items 06-03, 06-11, and 06-12, 06-13, 06-14, 06-15, 06-16, 06-29, and 06-35.

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 the 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 the 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 06-01, 06-02, 06-04, 06-05, 06-06, 06-07, 06-08, 06-09, 06-10, 06-13, 06-14, 06-15, 06-16, 06-17, 06-18, 06-19, 06-20, 06-21, 06-22, 06-23, 06-24, 06-25, 06-26, 06-27, 06-28, 06-29, 06-30, 06-31, 06-32, 06-33, 06-34, 06-35, and 06-36.

A material weakness is a reportable 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 caused by error or fraud 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 the internal control over compliance would not necessarily disclose all matters in the 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 06-01, 06-02, 06-04, 06-05, 06-06, 06-07, 06-08, 06-09, 06-10, 06-17, 06-18, 06-19, 06-20, 06-21, 06-22, 06-23, 06-24, 06-25, 06-26, 06-27, 06-28, 06-30, 06-31, 06-32, 06-33, 06-34, and 06-36 to be material weaknesses.

This report is intended solely for the information and use of the Speaker of the House of the Representatives, the President Pro-Tempore of the Senate, the Governor, 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. However, this report is a matter of public record, and its distribution is not limited.

KPMG LLP

March 30, 2007

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

(1) Summary of Auditors' Results

- (a) The type of report issued by the Office of the State Auditor Vermont, State of Vermont, on the basic financial statements: **Unqualified**
- (b)(1) Reportable conditions in internal control were disclosed by the audit of the basic financial statements by the Office of the State Auditor, State of Vermont: **Yes**
Material weaknesses: **No**
- (b)(2) Reportable conditions in internal control were disclosed by the audit of the schedule of expenditures of federal awards: **No**
Material weaknesses: **No**
- (c)(1) Noncompliance which is material to the basic financial statements: **No**
- (c)(2) Noncompliance which is material to the schedule of expenditures of federal awards: **No**
- (d) Reportable conditions in internal control over major programs: **Yes**
Material weaknesses: **Yes**
- (e) The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion, except for
 - Special Supplemental Program for Women, Infants and Children (CFDA #10.557)
 - Food Stamp Cluster (CFDA #10.551; and #10.561)
 - National Guard Military Operations and Maintenance Projects (CFDA #12.401)
 - Fish and Wildlife Cluster (CFDA #15.605 and #15.611)
 - Homeland Security Cluster (CFDA #16.007; #97,004; and #97.067)
 - Public Safety Partnership and Community Policing Grants (CFDA #16.710)
 - Employment Services Cluster (CFDA #17.207; #17.801; and #17.804)
 - Unemployment Insurance (CFDA #17.225)
 - WIA Cluster (CFDA #17.258; #17.259; and #17.260)
 - Highway Planning and Construction (CFDA #20.205)
 - Performance Partnership Grants (CFDA #66.605)
 - Immunization Grants (CFDA #93.268)
 - Centers for Disease Control and Prevention – Investigations and Technical Assistance (CFDA #93.283)
 - Temporary Assistance for Needy Families (CFDA #93.558)
 - Medical Assistance Program (CFDA #93.778)
 - Reimbursement of State Costs for Provision of Part D Drugs (CFDA #93.794)
 - Block Grants for Prevention and Treatment of Substance Abuse (CFDA #93.959)
- (f) Any audit findings in the schedule of findings and questioned costs that are required to be reported in accordance with Section .510(A) of OMB Circular A-133. **Yes**

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

(g) The State's major programs were:

CFDA number	Name of federal program
Food Stamp Cluster:	
10.551	Food Stamps
10.561	State Administrative Matching Grants for Food Stamp Program
Fish and Wildlife Cluster:	
15.605	Sport Fish Restoration
15.611	Wildlife Restoration
Homeland Security Cluster:	
16.007	State Domestic Preparedness Equipment Support Program
97.004	State Domestic Preparedness Equipment Support Program
97.067	Homeland Security Grant Program
Employment Services Cluster:	
17.207	Employment Service
17.801	Disabled Veterans' Outreach Program
17.804	Local Veterans' Employment Representative Program
WIA Cluster:	
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
Highway Planning and Construction Cluster:	
20.205	Highway Planning and Construction
Medicaid Cluster:	
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers
93.778	Medical Assistance Program

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

<u>CFDA number</u>	<u>Name of federal program</u>
Other Programs:	
10.557	Special Supplemental Program for Women, Infants, and Children
12.401	National Guard Military Operations and Maintenance Projects
16.710	Public Safety Partnership and Community Policing Grants
17.225	Unemployment Insurance
20.509	Formula Grants for Other than Urbanized Areas
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
66.605	Performance Partnership Grants
93.268	Immunization Grants
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.794	Reimbursement of State Costs for Provision of Part D Drugs
93.959	Block Grants for Prevention and Treatment of Substance Abuse

(h) A threshold of \$3,790,520 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 Section .530 OMB Circular A-133.

(2) Findings Related to the basic financial statements reported in accordance with *Government Auditing Standards*

Three findings related to the basic financial statements for the year ended June 30, 2006 were reported in accordance with *Government Auditing Standards* by the Office of the State Auditor, State of Vermont, under separate cover.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 06-01

Agency of Human Services

Food Stamp Cluster

Food Stamps (CFDA #15.551)

State Administrative Matching Grants for Food Stamp Program (CFDA #10.561)

Requirement

A pass-through entity is responsible for ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition Found

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

- A. The Department is required to obtain financial statement and OMB Circular A-133 audit reports that are issued by their grantees within nine months of the subrecipient's year end. We were unable to obtain OMB Circular A-133 audit reports for twelve of twenty subrecipients selected for testwork to ensure that these reports were received by the Department.

In addition, the Department is required to review OMB Circular A-133 audit reports for each subrecipient within six months of receiving these reports. We were unable to obtain documentation that the Department reviewed the OMB Circular A-133 audit reports for seventeen of twenty subrecipients selected for testwork.

- B. The Department is required to follow up with the subrecipient on any audit findings included in the OMB Circular A-133 audit report to ensure that the subrecipient takes timely and appropriate corrective action. During our testwork, we noted that two of eight OMB Circular A-133 audit reports reviewed included audit compliance findings. However, we were unable to obtain corrective action plans or any other documentation that the Department had followed up with the subrecipient.

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

Questioned Costs

None.

Recommendation

We recommend that the Department review its controls and policies and procedures over subrecipient monitoring to include procedures over obtaining and reviewing required audit reports to comply with the above stated requirements.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Management's Response and Corrective Action

The responsibility for subrecipient compliance with the OMB Circular A-133 audit requirement will be undertaken by the Agency of Human Services (AHS) Internal Audit Group (IAG) on behalf of pass-through entities. The IAG will establish its own controls and procedures with regard to handling sub-recipient audits.

First, IAG will confirm that the auditee was designated by the Department of Finance & Management as being required to have an A-133 audit. Procedures will include confirmation of receipt of Certificate of Audit Requirement by the Department of Finance & Management and review of the grantee's payments in the VISION accounting system. Attachment C of the standard Vermont state grant agreement will also be changed to require subrecipients to submit audit reports to the AHS Internal Audit Group if AHS is the lead agency. A checklist of incoming audits as well as a VISION update for audit submission will be kept. A postcard (receipt) of the audit report, listing components, will be sent to the subrecipient. Missing sections of the audit report will be requested. If AHS is not the lead agency the IAG will follow up with the lead agency and respond to any findings or questions and will note this in the VISION system.

The staff of IAG will review each audit using the Review of Compliance with Office of Management & Budget Circular A-133 checklist. Each audit will be signed and dated by the reviewer. The checklist will be kept with the audit report and filed in the IAG office for three years. The reviewer will also enter into the VISION subrecipient module pertinent review information, findings and will date the review.

The reviewer will summarize the findings and corrective actions. IAG will communicate the summary in writing to the pass-through entity representative and request that the pass-through issue a management letter to the auditee with a copy to the IAG. The copy will be filed with the audit report and kept in the IAG office for three years. The IAG will keep a check list of management letters requested and received in the IAG office.

Scheduled Completion Date: June 30, 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Audit Chief, (802) 241-1091

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Finding 06-02

Agency of Human Services

Special Supplemental Program for Women, Infants and Children (CFDA #10.557)

Requirement

Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended and debarred or whose principals are suspended or debarred. Effective November 26, 2003, only those procurement contracts for goods or services awarded under a nonprocurement transaction that are expected to equal \$25,000 or meet the certain other specified criteria are considered covered transactions in addition to procurement contracts for goods or services equal to or in excess of \$100,000.

Condition Found

The Department does not have any policies to verify whether a vendor has been suspended or debarred from receiving federal funds. As a result, the Department did not verify whether or not the vendor had been suspended or debarred from receiving federal funds for two of thirteen contracts selected for testwork.

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

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department implement policies and procedures for monitoring and documenting whether or not contracted vendors have been suspended or debarred from receiving federal funding.

Management's Response and Corrective Action

For some time the standard Vermont state contract has included self-declaration language regarding suspension and debarment from doing business with the federal government. This contract form was not used in two instances that have resulted in multiple findings with regard to compliance with this requirement. One instance was that the statewide purchasing contracts of the Department of Buildings and General Services (BGS) available to all state departments did not include the required language. The other instance occurred when BGS issued a Blanket Delegation of Authority (BDA) for purchase of specific items to a department. The BDA form did not remind departments of their obligation to test for suspension or debarment and the departments did not think of it when they issued purchase orders.

BGS purchasing contracts now include the required self-declaration language regarding suspension and debarment. BDAs, which are re-issued each January, now include language requiring the departments to include the same language regarding suspension and debarment in contracts or purchases made under the BDA as is in the standard contract. The Agency of Human Services internal audit group will annually test purchases made under BDAs to see that the suspension and debarment requirement is met.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Scheduled Completion Date: January 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Internal Audit Chief, (802) 241-1091

STATE OF VERMONT
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Finding 06-03

Agency of Human Services

Special Supplemental Program for Women, Infants and Children (CFDA #10.557)

Requirement

Applicants for WIC Program benefits are screened at WIC clinic sites to determine their eligibility. This screening process includes ensuring that applicants are categorically eligible and monetarily eligible for benefits.

Condition Found

One of thirty applications selected for testwork did not contain an application that verified income and identify. No additional supporting documentation had been obtained by the Department to support that the applicant's income had been verified. As a result, we were unable to determine whether or not the applicant was eligible for benefits. This appeared to have been an isolated instance.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review its procedures for documenting the applicant's eligibility criteria in order to ensure that all eligibility determinations are properly documented to support the above stated compliance requirements.

Management's Response and Corrective Action

It was noted that of thirty applications selected for testwork, one did not contain an application that verified income and identity. This is a staff performance issue with a single individual in the Springfield District Office and will be addressed directly with his supervisor.

Scheduled Completion Date: January 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Internal Audit Chief, (802) 241-1091

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Finding 06-04

Department of Defense

National Guard Military Operations and Maintenance Projects (CFDA #12.401)

Requirement

Procurement

States, and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations.

Under the provisions of Bulletin 3.5 sole source and contracts for \$10,000 or less require a supervisor to place in the contract file a signed explanation for selecting the contractor including 1) a description of the qualifications of the contractor supporting the policy that the services or products to be provided by the vendor must be of high quality; and 2) a description of the prices charged by the vendor and an explanation as to why such charges are both cost effective and reasonable.

Under the provisions of Bulletin 3.5, under *Waivers and Contracting Plans* states that “The Secretary may waive provisions of this Bulletin on a case by case basis pursuant to a written request from a supervisor. Additionally, for specific classes of contracts exhibiting characteristics which can not reasonably be accommodated within the requirements of this Bulletin, the Secretary may approve a written contracting plan that provides an acceptable alternative to any requirement of this Bulletin.”

Suspension and Debarment

Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Effective November 26, 2003, only those procurement contracts for goods or services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000 or meet the certain other specified criteria are considered covered transactions in addition to procurement contracts for goods or services equal to or in excess of \$100,000.

Condition Found

During our testwork over contract payments and suspension and debarment, we noted the following:

- A. We were unable to obtain the original contract for one of twenty contracts selected for testwork. In addition to the contract, the AA14 Approval Form for the contract also could not be located. As a result, we were unable to determine whether or not this contract was allowable and whether or not the Department had verified if the vendor had been suspended or debarred from receiving federal funds through the contract process.
- B. Three of twenty contracts selected for testwork were sole source contracts. We noted that two of three contracts lacked the required explanation for selecting the contractor as required under the Bulletin 3.5, the State’s procurement policy. One of three contracts was a nonstandard contract and could not be reasonably accommodated within the requirements of Bulletin 3.5. Nevertheless, as

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allowed under that Bulletin, no waiver was sought for this contract to provide an alternative to the requirements of the Bulletin.

- C. Nineteen of twenty contracts selected for testwork did not contain any references to suspension and debarment. In addition, the Department was unable to provide documentation that a review had been performed to ensure that contractor was not suspended or debarred.
- D. Two of thirty invoices tested were paid under a Statewide contract. We reviewed the Statewide contract and noted that the contract did not include the required suspension and debarment clauses. In addition, the Department did not verify for the remaining twenty-eight vendors whether or not the vendor had been suspended or debarred from receiving federal funds.

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

Questioned Costs

None identified.

Recommendation

We recommend that the Department implement the necessary control policies and procedures to ensure that the Department consistently applies the requirements under the Statewide procurement procedures as outlined in Bulletin 3.5. In addition, we recommend the Department implement control policies and procedures for monitoring all vendors for compliance with suspension and debarment compliance.

Management's Response and Corrective Action

Procurement: Concur. The CFMO will ensure that a memo justifying sole source documentation for service contracts under \$10,000 will be placed in the contract file. A draft generic memo has been made and project managers have been instructed to complete the justification with the AA14, prior to signature from the Deputy or the Adjutant General.

Suspension and Debarment: Concur. The requirement has been added to the general provisions of all of our contracts, specifically the Invitation to Bid page and the Bid Proposal. On the Bid Proposal, we have required the contractor to certify that he/she is not under this consideration. We are assigning SSG Dave Brown of the CFMO Office to verify that contractors are not suspended or debarred from doing business with the Federal Government. SSG Brown will initial every contract to ensure this happens.

Scheduled Completion Date: June 30, 2007

Contact Person(s)

Robert Gingras, P.E., LTC, (802) 338-3041

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Finding 06-05

Agency of Natural Resources

Fish and Wildlife Cluster:

Sport Fish Restoration (CFDA #15.605)

Wildlife Restoration (CFDA #15.611)

Requirement

Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Effective November 26, 2003, only those procurement contracts for goods or services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000 or meet the certain other specified criteria are considered covered transactions in addition to procurement contracts for goods or services equal to or in excess of \$100,000.

Condition Found

The Department does not have any procedures in place to verify whether a vendor has been suspended or debarred from receiving federal funds. As a result, the Department did not verify whether or not the vendor had been suspended or debarred from receiving federal funds for three of twenty-six items selected for testwork in which the vendor had been paid more than \$25,000.

This finding is considered to be systemic in nature and has been reported as a material weakness.

Questioned Costs

None noted.

Recommendation

We recommend that the Department implement its procedures for monitoring and documenting whether or not contracted vendors have been suspended or debarred from receiving federal funding.

Management's Response and Corrective Action

The Department of Fish and Wildlife (DFW) of the Agency of Natural Resources (the Agency) recognizes the need to check a vendor's or grantee's status related to Federal suspension or debarment. The Grants Program Assistant of the DFW Business Office is now responsible for checking the federal website prior to processing any grant or contract. A copy of the website finding is included in the contract/grant file. We are in the process of adding to the Agency's Contract/Grant Routing form, a "check box" to indicate that the status of the vendor or grantee has been verified.

In addition, on a quarterly basis, the Grants Program Assistant will check for any vendors that have been paid \$25,000 or more (a copy of this query will be kept on file). If a vendor has been paid \$25,000 or more, and they do not have a grant or contract with the DFW, they will be checked against the Federal website. If a website search is required, a copy of the website finding will be kept on file with the above mentioned query, and a copy will also be placed in the Vendor payment file kept at Administration Services.

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Scheduled Completion Date: We have already gone back and verified the status on all active contracts and grants, and included a copy of the website finding in our contract/grant file. We are checking all new contracts and grants when they are initiated.

The “check box” to be added to the Agency’s Contract/Grant Routing form is expected to be ready for use by March 1, 2007.

A vendor payment review of \$25,000 or more will be done before the end of February 2007.

Contact Person(s)

Sherri A. Yacono, Business Manager, (802) 828-241-3704

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Year ended June 30, 2006

Finding 06-06

Department of Public Safety

Public Safety Partnership and Community Policing Grants (CFDA #16.710)

Requirement

Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Effective November 26, 2003, only those procurement contracts for goods or services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000 or meet the certain other specified criteria are considered covered transactions in addition to procurement contracts for goods or services equal to or in excess of \$100,000.

Condition Found

The Department does not have any procedures to verify whether a vendor has been suspended or debarred from receiving federal funds. As a result, the Department did not verify whether or not the vendor had been suspended or debarred from receiving federal funds for three of eleven contracts and twenty-three of thirty-one vendors selected for testwork in which the vendor had been paid more than \$25,000.

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

Questioned Costs

None noted.

Recommendation

We recommend that the Department implement procedures for monitoring and documenting whether or not vendors have been suspended or debarred from receiving federal funding.

Management's Response and Corrective Action

The Administrative Services Division of the Department of Public Safety has developed and implemented the following policies and procedures to address this material weakness:

Department of Public Safety
Excluded Parties Policy and Procedures
February 22, 2007

It is the policy of the Department of Public Safety to assure that parties who have been specifically excluded from receiving Federal contracts, financial and nonfinancial assistance and benefits do not receive such benefits as a result of grants and contracts issued by the Department of Public Safety or the State of Vermont through its state-wide contracting system. THIS PROCEDURE DOES NOT AFFECT CONTRACTORS, SUBRECIPIENTS OR VENDORS RECEIVING PAYMENTS MADE WITH NON-FEDERAL FUNDS.

The basis for determination of exclusion will be the EXCLUDED PARTIES LIST SYSTEM (EPLS) as submitted to the United States General Services Administration (GAO), Office of the Chief Acquisition

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Environment (IAE) Division, by Information Services Corporation (ISC). The EPLS website is found at epls.arnet.gov.

Procedure:

Subgrant Agreements: The individual responsible for the preparation of a subgrant agreement shall first determine whether or not the subrecipient is currently included on the EPLS by accessing the system and reviewing the list for the state as a whole or for the individual as they so choose. If the subrecipient does not appear on the current listing, the agreement can be prepared and the preparer will attest to the fact the list has been checked by marking the box on the subgrant cover sheet and signing their name.

The grant manager/preparer must also notify the subrecipient that it is incumbent upon them to likewise research the EPLS to determine if any subrecipient of there is excluded as well as any contractor or vendor who would receive payments from them as part of the subgrant process. Excluded parties may not participate in the contract at any point.

The Accounting Office is not required to take any further action other than to determine that the subgrant agreement cover sheet is properly completed.

The Department auditor(s) shall note requirements as specified in the Department's SUBRECIPIENT SITE MONITORING GUIDE AND ADMINISTRATIVE PROCEDURES COMPLIANCE REVIEW (the Audit Manual), page 29 Section L.3. Debarred parties, during the course of the monitoring visits.

Personal Services Contracts: The individual responsible for the preparation of the Contract Request Form shall first determine whether or not the vendor or any principals of the vendor are currently listed on the EPLS. If they are not listed, the contract process may proceed. If they are listed, the contract may have to be re-bid or the next bidder in line may be selected. The contract preparer must also notify the contractor that it is incumbent upon them to likewise research the EPLS to determine if any sub-contractor or vendor who would receive payments from them as part of the contract process is an excluded party. Excluded parties may not participate in the contract at any point.

State Purchasing Contracts: Central Purchasing does not, at this point, check their vendors against EPLS. Any person initiating an order against an existing state contract must first check the vendor name with EPLS.

Purchasing Procedures: When placing an order for materials using DPS Form 144 (Order Form), and the fund source is Federal (Fund 22005), check the vendor against the current EPLS and check the box indicated at the top of the form.

Non-Contract Vendor Payments: For any noncontract vendor payments made with Federal funds in whole or in part, Accounting (A/P) will have to check EPLS and so indicate on the invoice. If any such payments must first be reviewed/approved by a program person prior to payment by A/P, that person accepts the responsibility for checking EPLS and must so indicate on the invoice that the check has been made. NOTE: If the Order Form (DPS Form 144) already indicates that the vendor has been checked against EPLS, nothing more is required.

Public safety Administrative Services 2.23.20

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Schedule Completion Date: Policy/Procedure Enacted: February 22, 2007

Contact Person(s)

Theodore Nelson, Jr., Management Executive, (802) 241-5496

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Finding 06-07

Department of Labor

Employment Services Cluster:

Employment Services (CFDA #17.207)

Disabled Veterans' Outreach Program (CFDA #17.801)

Local Veterans' Employment Representative Program (CFDA #17.804)

Requirement

Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Effective November 26, 2003, only those procurement contracts for goods or services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000 or meet the certain other specified criteria are considered covered transactions in addition to procurement contracts for goods or services equal to or in excess of \$100,000.

Condition Found

The Department does not have any procedures to verify whether a vendor has been suspended or debarred from receiving federal funds. As a result, the Department did not verify whether or not the vendor had been suspended or debarred from receiving federal funds for three of thirty-five items selected for testwork in which the vendor had been paid more than \$25,000.

This finding is considered to be systemic in nature and has been reported as a material weakness.

Questioned Costs

None noted.

Recommendation

We recommend that the Department implement procedures for monitoring and documenting whether or not contracted vendors have been suspended or debarred from receiving federal funding.

Management's Response and Corrective Action

Effective immediately we are screening all grants and personal service contracts at epls.gov, the Excluded Parties System List, a government website which lists by state all individuals and entities which have any kind of exclusion by the federal government.

We will develop a procedure to be followed quarterly which will allow us to similarly screen all vendors to whom we have paid \$25,000 or more year-to-date on the state fiscal year.

Schedule Completion Date: April 1, 2007

Contact Person(s)

Kathie Retchless, Financial Administrator, (802) 828-4102

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Finding 06-08

Department of Labor

Unemployment Insurance (CFDA #17.225)

Requirement

Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Effective November 26, 2003, only those procurement contracts for goods or services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000 or meet the certain other specified criteria are considered covered transactions in addition to procurement contracts for goods or services equal to or in excess of \$100,000.

Condition Found

The Department does not have any policies to verify whether a vendor has been suspended or debarred from receiving federal funds. As a result, the Department did not verify whether or not the vendor had been suspended or debarred from receiving federal funds for three of thirty-five items selected for testwork in which the vendor had been paid more than \$25,000.

This finding is considered to be systemic in nature and has been reported as a material weakness.

Questioned Costs

None noted.

Recommendation

We recommend that the Department implement procedures for monitoring and documenting whether or not contracted vendors have been suspended or debarred from receiving federal funding.

Management's Response and Corrective Action

Effective immediately we are screening all grants and personal service contracts at epls.gov, the Excluded Parties System List, a government website which lists by state all individuals and entities which have any kind of exclusion by the federal government.

We will develop a procedure to be followed quarterly which will allow us to similarly screen all vendors to whom we have paid \$25,000 or more year-to-date on the state fiscal year.

Schedule Completion Date: April 1, 2007

Contact Person(s)

Kathie Retchless, Financial Administrator, (802) 828-4102

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Finding 06-09

Department of Labor

WIA Cluster:

WIA Adult Program (CFDA #17.258)

WIA Youth Activities (CFDA #17.259)

WIA Dislocated Workers (CFDA #17.260)

Requirement

Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Effective November 26, 2003, only those procurement contracts for goods or services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000 or meet the certain other specified criteria are considered covered transactions in addition to procurement contracts for goods or services equal to or in excess of \$100,000.

Condition Found

The Department does not have any policies to verify whether a vendor has been suspended or debarred from receiving federal funds. As a result, the Department did not verify whether or not the vendor had been suspended or debarred from receiving federal funds for three of thirty-five items selected for testwork in which the vendor had been paid more than \$25,000.

This finding is considered to be systemic in nature and has been reported as a material weakness.

Questioned Costs

None noted.

Recommendation

We recommend that the Department implement procedures for monitoring and documenting whether or not contracted vendors have been suspended or debarred from receiving federal funding.

Management's Response and Corrective Action

Effective immediately we are screening all grants and personal service contracts at epls.gov, the Excluded Parties System List, a government website which lists by state all individuals and entities which have any kind of exclusion by the federal government.

We will develop a procedure to be followed quarterly which will allow us to similarly screen all vendors to whom we have paid \$25,000 or more year-to-date on the state fiscal year.

Schedule Completion Date: April 1, 2007

Contact Person(s)

Kathie Retchless, Financial Administrator, (802) 828-4102

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Finding 06-10

Agency of Transportation

Highway Planning and Construction (CFDA #20.205)

Requirement

A pass-through entity is responsible for:

- *Award Identification* – At the time of the award, identifying to the subrecipient the federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements.
- *Subrecipient Audits* – Ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity's ability to comply with applicable federal regulations.

Condition Found

The Agency enters into various grant agreements with subrecipients to provide services related to the highway planning and construction program. During our testwork over subrecipient monitoring, we noted the following:

- A. Seven of thirty-five subrecipient grants selected for testwork had inconsistent and/or missing information within the State's VISION grant tracking system. As a result, we were unable to verify whether or not the subrecipient was required to have an audit in accordance with OMB Circular A-133.
- B. Four of thirty-five subrecipient grants selected for testwork either had a grant agreement or subsequent amendments to the grant agreement that did not identify the CFDA number. In addition, one of thirty-five subrecipient grants contained a CFDA number that incorrect.
- C. One of thirty-five subrecipient grants selected for testwork, did not have a formal grant agreement. As a result, there were no standard grant provisions such as adhering to federal regulations or suspension and debarment included therein, nor was there a CFDA number documented thereon.

The above instances do not appear to be isolated and is considered to be a material weakness. The lack of consistently followed subrecipient monitoring procedures could lead to payments being made to subrecipients that are not allowable.

Questioned Costs

None identified.

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Recommendation

We recommend that the Agency review its policies and procedures to ensure that the procedures in place to properly monitor subrecipients are consistently followed. This would include ensuring that all grant agreements issued contained the proper identifying federal information and that all federal reports are obtained from the subrecipient and reviewed in the appropriate time period.

Management's Response and Corrective Action

- A. We agree. We believe follow-up is required to ensure that all grants awarded by VTrans are entered into the VISION tracking system.

Steps to Correct

Since four separate Divisions and the Department of Motor Vehicles are subject to entering grants into VISION and the Divisions provide the data entered for subsequently required information, to reduce potential omissions, a central position in Accounting was assigned during fiscal year 2006 to monitor and to ensure new grant entry occurs and subsequent information is entered in support of the Divisions and the requirements of VISION.

Scheduled Completion Date: Completed

Contact Person(s)

Rose Lessard, Accountant C, (802) 828-2988
Marlene McIntyre, Senior Accountant, (802) 828-3444
Robert Corti, Business Manager, Operations, (802) 838-2601
Dennis Trapp, Business Manager, Planning, (802) 828-2671
Phil Cross, Business Manager, Finance & Administration, (802) 828-0764
Helen Estroff, Business Manager, Program Development, (802) 828-2860

- B. We agree. In this unique circumstance, a letter of *approval and/or authorization* was used to extend federal aid disaster assistance to a subrecipient.

Steps to Correct

The Program Manager is now using the standard grant agreement and processing procedures.

Scheduled Completion Date: Completed

Contact Person(s)

Bill McMannis, AOT Fiscal Officer, (802) 828-2602
Edna Martineau, Chief of Contract Administration, (802) 828-2089

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- C. We agree. Including a reference in our grants to the CFDA is a required part of documenting a grant. Usually, if a CFDA number is inadvertently omitted, the subrecipient will contact the grant manager to obtain.

Steps to Correct

Procedures are in place in Contract Administration and in the Audit Division to review a draft grant before it is awarded and this will help detect most errors.

Scheduled Completion Date: Completed

Contact Person(s)

Al Neveau, AOT Manager IV, (802) 828-3588

Edna Martineau, Chief of Contract Administration, (802) 828-2089

Dave Lawlor, Chief of Audit, (802) 828-3506

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Finding 06-11

Agency of Transportation

Highway Planning and Construction (CFDA #20.205)

Requirement

Treasury regulations at 31 CFR part 205, which implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 *et seq.*), require State recipients to enter into agreements that prescribe specific methods of drawing down federal funds (funding techniques) for selected large programs. The agreements also specify the terms and conditions in which an interest liability would be incurred.

Condition Found

The Agency does not draw down funds from the federal clearinghouse using the method described within the federally approved CMIA Agreement (the Agreement) for the Highway Planning and Construction Program. In accordance with the agreement, the Agency is required to use the Composite Clearance – State Vendor’s Account method for drawing federal funds for this program. Under this method, the Agency is required to ensure that each request for reimbursement is equal to the total amount of expenditures posted during the State’s billing cycle, and that the billing cycle being used is twice the State’s average check clearance pattern (of five days), thus a ten day billing cycle. We noted that the Agency requests funds for reimbursement on a weekly basis.

Section 3.2 of the Agreement requires that a state notify the federal government in writing within 30 days of the time the State becomes aware of a change that involves additions or deletions of programs subject to Subpart A, changes in funding techniques, and/or changes in clearance patterns.” As of June 30, 2006, no such notification had been made.

Questioned Costs

None.

Recommendation

We recommend that the Agency review its procedures for drawing federal funds to ensure that the method used is consistent with the method outlined in the Agreement. In addition, we recommend that the Agency implement procedures to ensure that if changes are made in the method for drawing federal funds, that the Department of Finance and Management is notified in a manner to allow them to notify the federal government within the required time period.

Management’s Response and Corrective Action

We concur with this finding to the extent that the TSA (US Treasury and State Agreement) does not correctly identify the funding technique utilized by the Agency to draw down federal funds. As opposed to the two week (ten day) billing cycle, the Agency’s Composite Clearance funding technique consists of five days. The five day billing cycle has been in place since the Agency converted to the STARS Financial System during the State’s 1994 fiscal year. This technique accomplishes two things: it provides for interest

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neutrality as mandated by the Federal Cash Management Improvement Act of 1990, and enhances the State's cash flow.

We will work with the Department of Finance and Management to correct the language in the TSA so that will accurately reflect the Agency's funding technique which incorporates a five day billing cycle.

Steps to Correct

We will work with the Department of Finance and Management to correct the language in the TSA agreement so it will accurately reflect the Agency's funding technique.

Scheduled Completion Date: March 31, 2007

Contact Person(s)

Dave Lawlor, Chief of Audit, (802) 828-3560

Marlene McIntyre, Senior Accountant, (802) 828-3444

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Finding 06-12

Agency of Transportation

Highway Planning and Construction (CFDA #20.205)

Requirement

FHWA project approval and authorization to proceed is required before costs are incurred for all construction projects other than those administered by the State Department of Transportation (DOT) under 23 USC 106(c). Construction projects administered under standard procedures cannot be advertised nor force account work commenced until FHWA: (1) approves the plans, specifications, and estimates; and, (2) authorizes the State DOT to advertise for bids or approves the force account work (23 CFR sections 630.205(c), 635.112(a), 635.204, and 635.309). Construction cannot begin until after FHWA concurs in the contract award (23 CFR Section 635.114). This requirement does not apply to construction projects administered by the State DOT under 23 USC 106(c) which allow the State DOT to assume the responsibilities for design, plans, specifications, estimates, contract awards and inspection of progress (23 USC 106(c)).

Condition Found

Under the provisions of 23 USC 106(c), the State DOT may assume the responsibilities for design, plans specifications, estimates, contract awards etc. The project specifications and evaluations (PS&E's) which do not require approval by FHWA, are prepared by Contract Administration within the Agency. Under 23 USC 106 (c), the Agency must still have an approval process in place as an alternative to the FHWA approval of the plans, specifications or estimates (PS&Es). While the Agency does have various procedures in place to achieve this requirement, we noted that the Agency does not have a formal written process in place to adhere to this requirement. A similar comment was noted by FHWA during their review that was conducted and finalized by FHWA on September 22, 2006.

The lack of a formal process to approve projects that do not require full oversight by FHWA could lead to projects inadvertently being approved that do not meet federal requirements.

Questioned Costs

Undetermined.

Recommendation

We recommend that the Agency review its policies and procedures to ensure that the approval of nonoversite projects is clearly documented and in accordance with federal regulations.

Management's Response and Corrective Action

We agree that current procedures and associated forms do not explicitly designate that all requirements of PS&E under the provisions of 23 USC 106(c) have been met and are approved, although these procedures and associated forms are sufficient to document that all requirements of PS&E under the provisions of 23 USC 106(c) have been met. In a joint report, the FHWA and the Agency agreed that most if not all of the required information to encompass a complete PS&E approval process already exists.

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Steps to Correct

We are currently evaluating what changes in existing procedures and forms are necessary to explicitly designate that the requirements of PS&E under the provisions of 23 USC 106(c) are met and approved by the signing authority.

Scheduled Completion Date: April 30, 2007

Contact Person(s)

Edna Martineau, Chief of Contract Administration, (802) 828-2089
Marvin Kingsbury, Federal Funds Administrator, (802) 828-2679

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Finding 06-13

Agency of Transportation

Highway Planning and Construction (CFDA #20.205)

Requirement

When required by the Davis-Bacon Act, the Department of Labor's (DOL) government wide implementation of the Davis-Bacon Act, or by federal program legislation, all laborers and mechanics employed by the contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 266a-276A-7).

Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractors comply with the requirement of the Davis-Bacon Act and the DOL regulations (29 CFR part 5, "Labor Standards Provision Applicable to Contracts Governing Federally Financed and Assisted Construction). This includes a requirement for the contractor or subcontractor to submit to the nonfederal entity weekly, for each week in which any contract work is performed, a copy of the payroll and related statement of compliance.

Condition Found

Contractors are required to submit weekly certified payroll reports to the Resident Engineer (RE) on the construction site. As the payroll reports are received, the RE manually enters the payroll information onto a checklist entitled "Submission of Payroll with Required Certifications." The checklists indicate the project name, number and the prime or subcontractor. The checklist also includes columns to enter the payroll report in chronological order, the pay period ending date, the date the payroll report was received and the date that the payroll report was forwarded to the Office of Civil Rights and Labor Compliance within the Agency. Prior to sending the payroll reports to the Office of Civil Rights and Labor Compliance, the RE signs a form, certifying that they have reviewed the payroll report noting any discrepancies and any missing wage rate classifications.

During our testwork over the Davis-Bacon compliance, we noted the following:

- A. For ten of thirty contractors selected for testwork, the payroll reports were received from the contractor after the required date of submission.
- B. For fifteen of thirty contractors selected, we noted that the RE did not maintain properly and/or submit a checklist for the contractor and as a result, we were unable to determine whether or not the payroll report was submitted on time.

The above instances appear to be systemic in nature and are considered to be a reportable condition.

Questioned Costs

None identified.

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Recommendation

We recommend that the Agency implement the necessary control policies and procedures to ensure that all required payroll reports are received and reviewed timely by the Resident Engineer.

Management's Response and Corrective Action

We agree with the recommendation.

Steps to Correct

The Construction Section will implement a process control procedure as follows: Each Resident Engineer responsible for a project will forward a copy of a "checklist" to the Program Services Clerk biweekly. The Program Services Clerk will prepare a summary report for the Regional Construction Engineer biweekly for all projects assigned to the Region. The Regional construction Engineer will provide management oversight to ensure the process is followed, to document instances when the process could not be followed and why. The Regional Construction Engineer will also stress to the contractors at the Preconstruction Conferences the importance of submitting payroll information in accordance with the Contract and to follow up with contractors found to be late.

This new process will be reflected in the Construction Manual.

Scheduled Completion Date: April 30, 2006 for inclusion in the Construction Manual.

Contact Person(s)

David Hoyne, Construction Engineer, (802) 828-2593

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Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Finding 06-14

Agency of Transportation

Highway Planning and Construction (CFDA #20.205)

Requirement

A State Department of Transportation must have a sampling and testing program for construction projects to ensure that materials and workmanship generally conform to approved plans and specifications (23 CFR section 637.205). 23 CFR Subpart B, Section 637.207(d) states that a prompt comparison of acceptance test results with independent assurance test results and documentation of that comparison should be performed.

Condition Found

During our testwork over the Agency's material sampling process, we noted the following:

- A. For one of twenty-four items selected for testwork there was a two and one-half month delay between the date the comparison report was performed and documented and the dates upon which the acceptance and independent assurance tests were performed. Given what appears to be a normal timeframe of within one month for such comparisons and reports to be completed, we consider this to be out of compliance with the requirement.
- B. For one of twenty-four items selected for testwork, a certification was not obtained when one was required. In this case the item was on the advance certification list in error.
- C. For three of twenty-four items selected for testwork, an independent assurance test and thus a comparison report were not prepared as required by the materials Sampling Manual and Materials Record Sheet. Accordingly, no approvals were given.
- D. For one of twenty-four items selected for testwork, a Certification Letter had not been prepared in a timely manner (as of the date our sampling testwork was performed, December 2006). As the Completion and Acceptance memo had been received on December 7, 2005, the time delay to prepare the Certification Letter as required by standard procedure for non full over site projects and as required by 23 CFR section 637.207 for full over site projects is not acceptable.
- E. For one of twenty-four items selected for testwork, a letter of justification (explaining the use of a material which failed an acceptance test) could not be located. Such letter is required to accompany the Letter of Certification under such circumstances.

Given the frequency and range of exceptions noted during our testwork, there appears to be a systemic lack of controls in place to ensure that the required tests are performed and documented timely. As such, we consider this to be a reportable condition.

Questioned Costs

None identified.

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Recommendation

We recommend that the Agency implement the necessary control policies and procedures to ensure that all testing is performed when required, that all certifications are obtained when required, that the results of all material sampling tests are documented on a timely basis and that all Letters of Certification be prepared on a timely basis and be accompanied by justification memos where applicable.

Management's Response and Corrective Action

We agree with the recommendation.

Steps to Correct

- (1) We have recently created a Quality Engineering position to provide Management Oversight at a higher level than during the time when the Audit samples were completed.
- (2) Certain steps to improve completeness of testing will include grouping the materials testing record omission when no testing is required, omission of documentation for decision for no tests required, e.g. minor quantities – written documentation will be required. This new requirement will be written and distributed to staff.
- (3) Annual summary report will include a timeliness of action review for all testing requirements. Prior annual reporting had addressed the level of completion for required tests on all projects showing near 100% attainment.

Scheduled Completion Date: April 30, 2006 with respect to item two. Items one and three are considered continuing controls that are complete.

Contact Person(s)

Bill Ahearn, AOT Manager IV, Material Lab, (802) 828-3751

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Year ended June 30, 2006

Finding 06-15

Agency of Transportation

Formula Grants for Other than Urbanized Areas (CFDA #20.509)

Requirement

For costs to be allowable under the program, the project must provide local transportation service in an area other than an urbanized area (49 USC 5311(d)) or support intercity bus transportation (49 USC 5311 (f)). Coordination of mass transportation assisted under this Section with transportation service assisted by other United States Government sources is permitted and encouraged (49 USC 5311(b)).

Condition Found

In order to meet the objectives of this program, the Agency enters into grant agreements with third party public transit providers. The public transit providers submit requests for reimbursement throughout the year. Prior to payment, the reimbursement requests are required to be reviewed and approved by the Agency. For four of ten grant invoices selected for testwork, we were unable to locate a signature of the grant coordinator on the invoice indicating approval of the reimbursement requests.

The above instances appear to be systemic in nature and this is considered to be a reportable condition.

Questioned Costs

None.

Recommendation

We recommend the Agency implement the necessary control policies and procedures to ensure that all invoices are properly approved prior to payment.

Management's Response and Corrective Action

We agree with the recommendation.

Steps to Correct

The requirement for invoice approval by each grant coordinator has been reviewed with all staff.

Scheduled Completion Date: Complete

Contact Person(s)

Chuck Gallagher, Program Manager, (802) 828-5750
Krista Chadwick, AOT Public Transit Administrator, (802) 828-57570

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Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Finding 06-16

Agency of Natural Resources

Performance Partnership Grants (CFDA #66.605)

Requirement

Cost must be reasonable and necessary for the performance and administration of federal awards. Costs must be allocable to the federal awards under the provisions of the cost principles or Cost Accounting Standards Board Standards, as applicable. A cost is allocable to a particular cost objective (e.g., a specific function, program, project, department, or the like) if the goods or services involved are charged or assigned to such cost objectives in accordance with relative benefits received.

Condition Found

All employees are required to prepare and submit a signed timesheet as part of the payroll process. This timesheet is provided to their direct supervisor or divisional timekeeper, who reviews the timesheet for reasonableness and signs the timesheet indicating it appears proper. We noted that seven of the thirty timesheets were not approved by employees' direct supervisor. The lack of required approvals for amounts charged to the program could lead to unallowable payroll costs being charged to the federal program.

This finding is considered systemic in nature and has been reported as a reportable condition.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review its control policies and procedures to ensure that costs charged to federal programs are in compliance with OMB Circular A-87. In addition, we recommend the Department review its procedures for approving and reviewing all timesheets are in accordance with state policy.

Management's Response and Corrective Action

The Department of Environmental Conservation (DEC) will institute a policy whereas in the event that an employee's appropriate chain of command as set forth in the DEC organizational chart is unavailable, a designated individual in each division will be authorized as an appropriate signer to approve a timesheet. The DEC organizational chart is available on the Agency of Natural Resources (ANR) website and the list of designated approved signers will be available on the DEC Business Office Website and made available to ANR staff entering timesheets to ensure the timesheets are signed by an authorized signer for that employee.

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Scheduled Completion Date: DEC will compile a list of authorized signers within each division and post this information on the DEC Business Office Website as well as provide ANR with the list and keep updated as needed, no later than April 1, 2007.

Contact Person(s)

Joanna Raycraft, DEC Business Manager, (802) 241-3810

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Schedule of Findings and Questioned Costs

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Finding 06-17

Agency of Natural Resources

Performance Partnership Grants (CFDA #66.605)

Requirement

A pass-through entity is responsible for:

- *During-the-Award Monitoring* – Monitoring the subrecipient’s use of federal awards through site visits or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – Ensuring required audits are completed within nine months of the end of the subrecipient’s audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient’s audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable federal regulations.

Condition Found

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

1. When the Department reimburses its subrecipients for costs incurred, the Department does not require the subrecipient to submit documentation such as invoices or timesheets to support the amount being requested. The invoices that are provided by the subrecipient requesting reimbursement under the Department’s approved subrecipient monitoring policy are generic in nature and only provide a description of the costs incurred. The Department does not perform any other during the award monitoring activities, such as a site visit, to verify whether or not the costs that are being paid to a subrecipient are properly supported and related to the grant that is being funded. As a result, the Department does not appear to have any controls or procedures in place for determining whether or not the costs submitted by the subrecipient for reimbursement are supported with proper documentation and are allowable under the requirements of the grant.
2. The Department does not review the State of Vermont’s subrecipient tracking system to verify whether or not any of their subrecipients had an OMB Circular A-133 audit report that has been reviewed by the State designated primary agency. As a result, the Department is unaware of any potential audit findings that might indicate a risk of noncompliance with the funds granted by the Department itself.

This finding is considered to be systemic in nature and has been reported as a material weakness.

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Questioned Costs

Not Determinable.

Recommendation

We recommend that the Department review its control policies and procedures over subrecipient monitoring to ensure that the procedures in place for monitoring grantees are complete and in compliance with the above stated requirements. These procedures should ensure that the properly during the award monitoring activities are being performed and that the results of OMB Circular A-133 audits are being reviewed on a timely basis.

Management's Response and Corrective Action

The Department of Environmental Conservation's (DEC) Business Procedures outlines our requirements concerning the monitoring of sub-recipients. DEC will now review and document all comments/findings as reported in the State of Vermont's sub-recipient tracking system for all sub-recipients in addition to the review of OMB A-133 audits and issuance of the Management Decision Letter whereas DEC is designated as the primary pass-through entity. This process will be done at the time of grant issuance to ensure the sub-recipient is in compliance and to address any potential audit findings that might indicate a risk that would necessitate the designation of a higher category of "during-the-award" monitoring different from the current risk categories as outlined in DEC Business Procedures. A print-out of the comments/findings from the State of Vermont's tracking system will be kept in the official grant file with a business office signature and date of review. DEC utilizes a risk-based assessment system at the time of issuance of the grant (as stated in the DEC Business Procedures) to determine the level of monitoring that is necessary for each individual grant award and this information is to be used in that determination. DEC does not currently require documentation to be submitted with every invoice for sub-recipients that are determined to be at a risk level of I or II. However, as stated in Attachment B of each grant document, DEC does currently require that the documentation be maintained by the sub-recipient and be made available upon request. For sub-recipients that are assessed at a risk level of III or greater, documentation is currently required to be submitted with each invoice. DEC will modify its "during-the-award" monitoring procedures to include on-site audits in each of the risk level categories. DEC will select two sub-recipients from each risk category and two additional randomly selected sub-recipients to make a combined total of 10 on-site audits per State fiscal year. DEC will make every attempt to ensure to the best of our ability that the sub-recipients selected for audit are done in a cyclical manner. DEC will further amend our Attachment B and update our approved sub-recipient monitoring plan to include these changes.

The excerpted section from our procedures is inserted below:

426 Sub-Recipient Monitoring

All requests for payment must be accompanied by the Grants-Out Invoice (Attachment B), which must be approved by the grants manager prior to submitting to the business office for payment. In approving the Grants-Out Invoice (Attachment B), the grants manager is certifying that the funds are being used in accordance with the grant budget and that the work is being conducted in accordance with the scope of work outlined in the grant agreement. In determining the payment provisions, a Risk-Based Monitoring System is utilized and the monitoring of sub-recipients financial and programmatic activities is to be conducted in a

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manner at least as stringent as described below based on risk level. The risk level is determined by the grants manager during the execution of the grant agreement and the payment provisions are adjusted in accordance with the risk level as outlined in the tables below. Grant managers utilize the table below to assist in determining the risk level.

Size of grant award	Complexity	
	Low	High
Less than \$10,000	I	II
\$10,000 to \$49,999	II	II
\$50,000 to \$200,000	II	III
> \$200,000	III	III

Risk level	Financial monitoring	Programmatic monitoring
I	–Advance Payments only for: <ul style="list-style-type: none"> • Amount not to exceed 50% of total grant award 	–Program Reporting as defined in scope of work (Attachment A) –On-site Visits –Email Correspondence –Phone Assistance on Request
II	–Advance Payments only for: <ul style="list-style-type: none"> • Equipment, other Start-Up costs, and personnel and operating costs • Amount not to exceed 90 days of anticipated costs and/or 50% of total grant award 	–Program Reporting as defined in scope of work (Attachment A) –On-site Visits –Email Correspondence –Phone Assistance on Request
III	–Advance Payments only for: <ul style="list-style-type: none"> • Equipment and other Start-Up costs, plus • No more than 60 days of other costs –Submittal of documentation with invoices	–Program Reporting as defined in scope of work (Attachment A) –On-site Visits –Email Correspondence –Phone Assistance on Request –Quarterly submittal of program report
IV	–Advance Payments only for: <ul style="list-style-type: none"> • Equipment and other Start-Up costs, plus • No more than 30 days of other costs –Submittal of documentation with invoices. –Quarterly submittal of financial report.	–Program Reporting as defined in scope of work (Attachment A) –On-site Visits –Email Correspondence –Phone Assistance on Request –Quarterly submittal of program report –Spot on-site visits

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Complexity Rating Factors may include but not be limited to:

- (a) Duration of Project where Low is a single year, High is multiple years.
- (b) Sophistication where Low is basic construction, and High is scientifically complex such as determining cause and effect relationships.
- (c) Prior experience with the Sub-recipient – Where poor performance on previous grants reporting would be high.

Scheduled Completion Date: DEC will review the State of Vermont sub-recipient tracking system for all sub-recipients with current grants or contracts funded with Performance Partnership Grants (PPG) funds that are still open as of February 26, 2007 and follow-up on any comments that facilitate a need for further review no later than April 30, 2007. A print-out of the comments/review will be filed in the official grant file with a signature and date reviewed. DEC will also perform two on-site audits of current PPG grants that are still open as of February 26, 2007 no later than June 30, 2007.

Contact Person(s)

Joanna Raycraft, DEC Business Manager, (802) 241-3810

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Finding 06-18

Agency of Human Services

Immunization Grants (CFDA #93.268)

Requirement

A pass-through entity is responsible for:

- *During-the-Award Monitoring* – Monitoring the subrecipient’s use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – Ensuring required audits are completed within nine months of the end of the subrecipient’s audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient’s audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable federal regulations.

Monitoring For-Profit Subrecipients

Significant portions for this program are passed through from the pass-through entity (usually the State) to for-profit subrecipients in the form of vaccine. Since OMB Circular A-133 does not apply to for-profit subrecipients, the pass-through entity is responsible for establishing requirements as necessary to ensure compliance by for-profit subrecipients and for monitoring and reporting program performance by for-profit subrecipients. The compliance requirements applicable to for-profit subrecipients under this program are:

- a. Eligibility requirements
- b. Control of vaccine
- c. Record keeping

Condition Found

The Department of Health (the Department) receives the majority of all requested vaccines under the Immunization Grant Program directly from the Center for Disease Control (CDC) on an as needed basis. The vaccines are then distributed to a network of District Health Offices throughout the State of Vermont based on each District Office requesting the vaccine. The vaccines that are provided to the District Offices are then distributed to local health care providers that have enrolled in the Vaccines for Children Program. Once enrolled, the health care provider is required to submit a Vaccine Accountability Sheet to the District Office requesting the type and amount of each vaccine that is needed. Once received, the health care provider administers the vaccine directly to the patient. The Vaccine Accountability Sheets are provided to the Central Office, to update the inventory on hand for each District Office and Provider.

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In order to ensure that the local health care provider and District Office is properly accounting for and administering the vaccines under the Immunization Grant Program, the Department conducts an on-site monitoring review of individual providers and District Offices. A questionnaire is completed that discusses areas such as the provider's storage of vaccine and who they are administering the vaccine to. In addition, the Department conducts a chart review to ensure that the provider is maintaining adequate records to track who the vaccines were administered to.

During our testwork over the provider monitoring process, we noted the following:

- a. The Department requests identification of for-profit or nonprofit health care providers on the Site Assessment Questionnaire. However, the Department does not have procedures to determine which providers are having an audit performed in accordance with OMB Circular A-133. In addition, the Department does not request, receive or review any audit reports from any provider currently receiving vaccines under the Immunization Grant Program.
- b. As part of the Vaccines for Children (VFC) program, there are certain eligibility requirements that must be met in order for an individual to receive a vaccine from a provider. The questionnaire that is utilized by the Department inquires whether or not the provider monitors VFC eligibility. The VDH reviewer selects a sample of children who were vaccinated to verify that the provider did perform eligibility screening. If the screening was not performed the reviewer should note this on the "Provider Checklist and Quality Improvement Plan (the Plan)" which is given to the provider to summarize the on site monitoring results. The Plan should also indicate the need for a follow up visit within the next 12 months. The Department has established a guideline that follow up visits are required if they find that less than 90% of the sample they selected were not screened for eligibility. We noted two of thirty instances where the coverage was less than 90%, however the Department reviewer did not include this on the Plan and no follow up visit was performed.
- c. In performing the Department's on-site reviews, a sample of ten charts is selected and reviewed for each provider to ensure that the provider had sufficiently documented the vaccine product, date administered, manufacturer, lot number, name of the personal administering vaccines and the VIS publication date. Of the charts reviewed by the Department, we noted seven of the thirty providers selected for testwork did not consistently document all the information required in the immunization record. Of these seven, four were notified of the deficiency through the Plan and a subsequent review found these deficiencies had been resolved. In one instance, the provider was notified that corrective action was required but no follow up was performed to determine whether or not the deficiency has been corrected. In two instances the deficiency was never communicated to the provider and therefore never followed up.

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

Questioned Costs

Not determinable.

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Recommendations

We recommend that the Department implement the necessary control policies and procedures to ensure compliance with the above stated requirements.

Management's Response and Corrective Action

1. Providers, whether for profit or not for profit, get paid as vendors for administering vaccine that the CDC provides. Providers must account for vaccine received but they do not charge for the vaccine itself. As indicated in other findings the Agency of Human Services is strengthening its A-133 review process.
2. Eligibility requirement: The Department undertakes a yearly review of each provider to insure adherence with program requirements. As noted in the finding, a Provider Checklist and, if needed, Quality Improvement Plan are produced as a consequence of this internal review. The Quality Improvement Plan will indicate areas that need to be improved, including client eligibility. The Department is in the process of reviewing its follow-up procedures in order to provide a uniform and proactive response to deficiencies.
3. Records: As noted in the paragraph above, the Department is in the process or reviewing its follow-up procedures in order to provide a uniform and proactive response to deficiencies.

Scheduled Completion Date: May 31, 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Internal Audit Chief, (802) 241-1091

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Year ended June 30, 2006

Finding 06-19

Agency of Human Services

Immunization Grants (CFDA #93.268)

Requirement

Effective control and accountability must be maintained for all vaccine. Vaccine must be adequately safeguarded and used solely for authorized purposes.

Condition Found

The Department of Health (the Department) acts as the centralized depot for all vaccines for enrolled providers, in that those providers are also able to obtain all their required vaccines from the State of Vermont in addition to the Vaccines for Children (VFC) program. All vaccines are initially received directly by the Department. On an as needed basis, vaccines are distributed to the Department's eleven area District Offices based on order requests prepared directly by the District Office. The District Office then releases the funds to enrolled providers based on the number of doses requested on a Vaccine Accountability Sheet. All vaccines are identifiable based upon a lot number assigned to the vaccine by the manufacturer.

We noted that the Department does not have control procedures in place to ensure that VFC eligible children receive the vaccines provided under this program. The Department requires individual health care providers to verify VFC eligibility at the time the vaccine is distributed. Based on the Department's own internal monitoring procedures, providers do not routinely verifying program eligibility. In addition, vaccines provided to the health care provider under this program are not stored separately from other vaccines provided by the State. As a result, the Department is unable to verify the number of vaccines administered under this program or the number of eligible children under this program who actually received a vaccine.

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

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department implement the necessary control policies and procedures to ensure that all vaccines distributed under this program are properly safeguarded and accounted for.

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Management's Response and Corrective Action

The findings noted fall into three categories, (1) maintaining adequate inventory control over the Immunization Grant Program stock of vaccines, (2) accounting for Grant Program stock separate from the general State funded vaccine programs, and (3) follow-up to the Department staff annual site visits to insure adherence to a corrective action plan.

1. The Department uses a form called the "Vaccine Accountability Sheet" or VAS, for maintaining inventory control through all stages of storage, distribution and use of Immunization Grant Vaccines. Once per month, providers report to the District Offices on their inventory. The District Offices, in turn, report to the Department Central Office on the status of vaccine inventory. The present VAS reports starting and ending inventories and the total increases and decreases, but there is no subsidiary journal that aggregates the transactions to the totals. The form has been re-designed to provide for both inventory and total control and an audit trail to the underlying transactions.
2. The new inventory control (VAS) should correct the findings noted regarding storage of Grant Program vaccines. For the next fiscal year cycle, in addition to the use of the new inventory control form, the Department will determine whether it is necessary to physically mark all Grant Program designated vaccines with a clearly visible mark, such as a colored stick-on dot, so they are readily identified. This will clearly indicate which vaccines are to be used solely for the grant program.
3. The Department will insure that all deficiencies noted during the Department staff site visits are properly noted and included in a corrective action plan. The appropriate target dates will be followed in order to insure that individual providers either comply with the requirements of the Grant Program or are discontinued from the program.

Scheduled Completion Date: June 30, 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Internal Audit chief, (802) 241-1091

STATE OF VERMONT

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Year ended June 30, 2006

Finding 06-20

Agency of Human Services

Immunization Grants (CFDA #93.268)

Requirement

Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended and debarred or whose principals are suspended or debarred. Effective November 26, 2003, only those procurement contracts for goods or services awarded under a nonprocurement transaction that are expected to equal \$25,000 or meet the certain other specified criteria are considered covered transactions in addition to procurement contracts for goods or services equal to or in excess of \$100,000.

Condition Found

The Department does not have any procedures in place to verify whether a vendor has been suspended or debarred from receiving federal funds. As a result, the Department did not verify whether or not the vendor had been suspended or debarred from receiving federal funds for six of thirty-five items selected for testwork in which the vendor had been paid more than \$25,000.

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

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department implement procedures for monitoring and documenting whether or not vendors have been suspended and debarred.

Management's Response and Corrective Action

For some time the standard Vermont state contract has included self-declaration language regarding suspension and debarment from doing business with the federal government. This contract form was not used in two instances that have resulted in multiple findings with regard to compliance with this requirement. One instance was that the statewide purchasing contracts of the Department of Buildings and General Services (BGS) available to all state departments did not include the required language. The other instance occurred when BGS issued a Blanket Delegation of Authority (BDA) for purchase of specific items to a department. The BDA form did not remind departments of their obligation to test for suspension or debarment and the departments did not think of it when they issued purchase orders.

BGS purchasing contracts now include the required self-declaration language regarding suspension and debarment. BDAs, which are re-issued each January, now include language requiring the departments to include the same language regarding suspension and debarment in contracts or purchases made under the BDA as it in the standard contract. The Agency of Human Services internal audit group will annually test purchases made under BDAs to see that the suspension and debarment requirement is met.

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Year ended June 30, 2006

Scheduled Completion Date: January 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Internal Audit Chief, (802) 241-1091

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Finding 06-21

Agency of Human Services

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

Requirement

Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended and debarred or whose principals are suspended or debarred. Effective November 26, 2003, only those procurement contracts for goods or services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000 or meet the certain other specified criteria are considered covered transactions in addition to procurement contracts for goods or services equal to or in excess of \$100,000.

Condition Found

The Department does not have any policies to verify whether a vendor has been suspended or debarred from receiving federal funds. As a result, the Department did not verify whether or not the vendor had been suspended or debarred from receiving federal funds for sixteen of forty-two items selected for testwork in which the vendor had been paid more than \$25,000.

This finding is considered to be systemic in nature and has been reported as a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department implement procedures for monitoring and documenting whether or not vendors have been suspended or debarred.

Management's Response and Corrective Action

For some time the standard Vermont state contract has included self-declaration language regarding suspension and debarment from doing business with the federal government. This contract form was not used in two instances that have resulted in multiple findings with regard to compliance with this requirement. One instance was that the statewide purchasing contracts of the Department of buildings and General Services (BGS) available to all state departments did not include the required language. The other instance occurred when BGS issued a Blanket Delegation of authority (BDA) for purchase of specific items to a department. The BDA form did not remind departments of their obligation to test for suspension or debarment and the departments did not think of it when they issued purchase orders.

BGS purchasing contracts now include the required self-declaration language regarding suspension and debarment. BDAs, which are re-issued each January, now include language requiring the departments to include the same language regarding suspension and debarment in contracts or purchases made under the BDA as it in the standard contract. The Agency of Human Services internal audit group will annually test purchases made under BDAs to see that the suspension and debarment requirement is met.

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Scheduled Completion Date: January 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Internal Audit Chief, (802) 241-1091

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Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Finding 06-22

Agency of Human Services

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

Requirement

A pass-through entity is responsible for:

- *During-the-Award Monitoring* – Monitoring the subrecipient’s use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – Ensuring the required audits are completed within nine months of the end of the subrecipient’s audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient’s audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable federal regulations.

Condition Found

The Department grants funds to various organizations to support programs related to the federal grant. All subrecipients are required to sign a grant agreement that specifies 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 invoices, financial or programmatic reports. During our testwork over subrecipient monitoring, we noted the following:

- A. For one of seven subrecipient grants selected for testwork, the Department had not been obtained and reviewed the subrecipient’s audit report. In addition, for the remaining six grants, the Department did not review the State’s grant tracking system to determine whether or not there were matters relating to those grants that the Department should inquire about.
- B. For all seven grants selected for testwork, we noted that the Department does not review documentation maintained by the subrecipient to support the amounts paid to the subrecipient during the year nor are site reviews completed by the Department. As a result, if the entity is not required to have an audit over their federal expenditures due to immateriality of federal funding, the Department has no procedures to ensure the subrecipient is in compliance with the grant agreement.

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

Questioned Costs

Not determinable.

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Recommendation

We recommend that the Department review its existing policies and procedures to ensure it is adequately monitoring the funds granted to subrecipients to help verify that all subrecipient expenditures are allowable and in compliance with federal regulations.

Management's Response and Corrective Action

- A. The responsibility for subrecipient compliance with the OMB Circular A-133 audit requirement will be undertaken by the Agency of Human Services (AHS) Internal Audit Group (IAG) on behalf of pass-through entities. The IAG will establish its own controls and procedures with regard to handling sub-recipient audits.

First, IAG will confirm that the auditee was designated by the Department of Finance & Management as being required to have an A-133 audit. Procedures will include confirmation of receipt of Certificate of Audit Requirement by the Vermont Department of Finance & Management and review of the grantee's payments in the VISION accounting system. Attachment C of the standard Vermont state grant agreement will be changed to require subrecipients to submit audit reports to the AHS Internal Audit Group if AHS is the lead agency. A checklist of incoming audits as well as a VISION update for audit submission will be kept. A postcard (receipt) of the audit report, listing components, will be sent to the subrecipient. Missing sections of the audit report will be requested. If AHS is not the lead agency the IAG will follow up with the lead agency and respond to any findings or questions and will note this in the VISION system.

The staff of IAG will review each audit using the Review of Compliance with Office of Management & Budget Circular A-133 checklist. Each audit will be signed and dated by the reviewer. The checklist will be kept with the audit report and filed in the IAG office for three years. The reviewer will also enter into the VISION subrecipient module pertinent review information, findings and will date the review.

The reviewer will summarize the findings and corrective actions. IAG will communicate the summary in writing to the pass-through entity representative and a request for the pass-through to issue a management letter to the auditee with a copy to the IAG. The copy will be filed with the audit report and kept in the IAG office for three years. The IAG will keep a check list of management letters requested and received in the IAG office.

- B. IAG has developed a review process for evaluation of departmental subrecipient monitoring. It is currently performing reviews and working with the departments to make the improvements required. The Type A programs are a priority in this process.

Scheduled Completion Date: June 30, 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Internal Audit Chief, (802) 241-1091

STATE OF VERMONT

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Finding 06-23

Agency of Human Services

Temporary Assistance for Needy Families Cluster (CFDA #93.558)

Requirement

A pass-through entity is responsible for ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition Found

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

- A. The Department is required to obtain financial statement and OMB Circular A-133 audit reports that are issued by their grantees within nine months of the subrecipient's year end. We were unable to obtain OMB Circular A-133 audit reports for twelve of twenty subrecipients selected for testwork to ensure that these reports were received by the Department.

In addition, the Department is required to review OMB Circular A-133 audit reports for each subrecipient within six months of receiving these reports. We were unable to obtain documentation that the Department reviewed the OMB Circular A-133 audit reports for seventeen of twenty subrecipients selected for testwork.

- B. The Department is required to follow up with the subrecipient on any audit findings included in the OMB Circular A-133 audit report to ensure that the subrecipient takes timely and appropriate corrective action. During our testwork, we noted that two of eight OMB Circular A-133 audit reports reviewed included audit compliance findings. However, we were unable to obtain corrective action plans or any other documentation that the Department had followed up with the subrecipient.

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

Questioned Costs

None.

Recommendation

We recommend that the Department review its controls and policies and procedures over subrecipient monitoring to include procedures over obtaining and reviewing required audit reports to comply with the above stated requirements.

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Management's Response and Corrective Action

The responsibility for subrecipient compliance with the OMB Circular A-133 audit requirement will be undertaken by the Agency of Human Services (AHS) Internal Audit Group (IAG) on behalf of pass-through entities. The IAG will establish its own controls and procedures with regard to handling sub-recipient audits.

First, IAG will confirm that the auditee was designated by the Department of Finance & Management as being required to have an A-133 audit. Procedures will include confirmation of receipt of Certificate of Audit Requirement by the Vermont Department of Finance & Management and review of the grantee's payments in the VISION accounting system. Attachment C of the standard Vermont state grant agreement will also be changed to require subrecipients to submit audit reports to the AHS Internal Audit Group if AHS is the lead agency. A checklist of incoming audits as well as a VISION update for audit submission will be kept. A postcard (receipt) of the audit report, listing components, will be sent to the subrecipient. Missing sections of the audit report will be requested. If AHS is not the lead agency the IAG will follow up with the lead agency and respond to any findings or questions and will note this in the VISION system.

The staff of IAG will review each audit using the Review of Compliance with Office of Management & Budget Circular A-133 checklist. Each audit will be signed and dated by the reviewer. The checklist will be kept with the audit report and filed in the IAG office for three years. The reviewer will also enter into the VISION subrecipient module pertinent review information, findings and will date the review.

The reviewer will summarize the findings and corrective actions. IAG will communicate the summary in writing to the pass-through entity representative and request that the pass-through issue a management letter to the auditee with a copy to the IAG. The copy will be filed with the audit report and kept in the IAG office for three years. The IAG will keep a check list of management letters requested and received in the IAG office.

Scheduled Completion Date: June 30, 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Audit Chief, (802) 241-1091

STATE OF VERMONT

Schedule of Findings and Questioned Costs

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Finding 06-24

Agency of Human Services

Medical Assistance Program (CFDA #93.778)

Requirement

No later than sixty days after the end of the quarter, the State Medicaid Agency must provide to manufacturers drug utilization data. Within thirty days (thirty days plus eight days for mailing) of receipt of the utilization data from the State, the manufacturers are required to pay the rebate or provide the State with written notice of disputed items not paid because of discrepancies found.

Condition Found

The State Medicaid Agency did not receive notification of any discrepancies or payment within thirty-eight days of notifying the manufacturer of drug utilization for fifteen of the thirty rebates selected for testwork. In addition, for the quarter ending June 30, 2006, the Department did not provide the manufacturers with drug utilization data until November 2006, which is later than the sixty day requirement.

This appears to be systemic and is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the State Medicaid Agency review its control procedures to ensure that they are receiving notification or payment within the appropriate time period.

Management's Response and Corrective Action

The Department will establish an automated calendar notification to follow up lack of manufacturer responses within the required timeframe. Timely reporting has been a problem due to the changes required both by the introduction of Medicare Part D and the implementation of Vermont's comprehensive 1115 Medicaid waiver. This is continuing to be addressed and improvement is occurring.

Scheduled Completion Date: June 30, 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Internal Audit Chief, (802) 241-1091

STATE OF VERMONT

Schedule of Findings and Questioned Costs

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Finding 06-25

Agency of Human Resources

Medical Assistance Program (CFDA #93.778)

Requirement

Federal financial participation is available for aggregate payments to hospitals that serve a disproportionate number of low-income patients with special needs. The State Plan must specifically define a disproportionate share hospital and the method of calculating the rate for these hospitals. Specific limits for the total disproportionate share hospital payments for the state and the individual hospitals are contained in the legislation.

Condition Found

In accordance with the State Plan, the Disproportionate Share Hospital (DSH) “funds shall be distributed to each qualifying hospital according to its proportion to the total funds available for the year. The proportions shall be calculated by dividing the cost of each hospital’s uncompensated care (bad debt and free care) by the total cost of uncompensated care of all qualifying hospitals. We noted that the Department did not utilize this methodology. The Agency used operating revenues / operating expenses to obtain the charge / cost ratio which, was then multiplied by the bad debt/free care to obtain the DSH basis. This is considered to be a material weakness.

Questioned Costs

\$857,079 – the amount over paid to hospitals as a result of the incorrect calculation.

Recommendation

We recommend that the Agency review its policies and procedures to ensure DSH allotments are calculated in accordance to the State Plan and that the DSH allotments.

Management’s Response and Corrective Action

The problem was recognized and in 2007 DSH payments were calculated and paid in accordance with the Medicaid state plan.

Scheduled Completion Date: July 1, 2006

Contact Person(s)

Jan Westervelt, Agency of Human Services Internal Audit Chief, (802) 241-1091

STATE OF VERMONT

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Year ended June 30, 2006

Finding 06-26

Agency of Human Services

Medical Assistance Program (CFDA #93.778)

Requirement

The State Medicaid Agency must provide reasonable assurance that only eligible individuals and organizations receive assistance under federal award programs, that subawards are made only to eligible subrecipients, and that amounts provided to or on behalf of eligibles were calculated in accordance with program requirements including authorized signatures (manual or electronic) on eligibility documents periodically reviewed.

Condition Found

During our testwork over the quality control process for Medicaid, we noted the following:

- A. The Quality Control Unit has a procedure requiring that quality control reviews are reviewed and initialed by either the Quality Assurance Supervisor or the Quality Control Chief. Twenty-nine of forty files selected for testwork had not been properly reviewed by either the Quality Assurance Supervisor or the Quality Control Chief.
- B. One of the forty files selected for testwork had an understated liability. We were unable to determine whether or not the proper decision was made in regards to the eligibility of the participant for Medicaid for the period as the final review of the file had not been conducted by the Quality Control Chief.

The above instances appear to be systemic and are considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the State Medicaid Agency review its control procedures to ensure that the Quality Control Reviews are being reviewed as required by the Agency's procedures.

Management's Response and Corrective Action

The Quality Control Unit will review the adopted procedure to ensure their compliance with it.

Scheduled Completion Date: April 1, 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Internal Audit Chief, (802) 241-1091

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Finding 06-27

Agency of Human Services

Medical Assistance Program (CFDA #93.778)

Requirement

In most cases, the state must refund provider overpayments to the federal government within sixty days of identification of the overpayment, regardless of whether the overpayment was collected from the provider.

Condition Found

During our testwork over provider overpayments, we noted the following:

- A. The Agency was unable to provide us with a complete listing of overpayments in order for us to be able to verify that the overpayment was refunded within the appropriate time period. As a result, we were unable to test this requirement.
- B. We were unable to verify that the state followed its internal procedures in regards to the use of an Accident/Trauma Questionnaire that is used to detect third party liabilities as the Agency was unable to provide us with support that the questionnaires were sent to individuals as required.

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

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency review its procedures to ensure that they are monitoring and refunding provider overpayments within the appropriate time period.

Management's Response and Corrective Action

The requested data required by the OMB suggested audit procedure was not understood at the time of the request, and it was not readily available at the time. It will be provided for the coming audit if requested.

The staff will review the adopted procedure to ensure they are in compliance with it.

Scheduled Completion Date: March 31, 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Internal Audit Chief, (802) 241-1091

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Finding 06-28

Agency of Human Services

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 reasonable 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 cost reports are used to establish payment 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).

Condition Found

During our testwork over inpatient hospital rates, we noted that the Agency does not evaluate the rates paid to providers based on cost audits or other periodic audits as required. Instead, the rates are based upon a rate that was established in 1992 and has subsequently been adjusted annually by the state legislature. As a result, the Agency does not appear to be in compliance with the above requirement.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency perform the procedures necessary to ensure that the rates that are paid for inpatient hospital services are determined as required by the above stated requirement.

Management's Response and Corrective Action

Audits are available. The Department will review the Medicaid state plan requirements and provide that it performs the required reviews.

Scheduled Completion Date: June 30, 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Internal Audit chief, (802) 241-1091

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Finding 06-29

Agency of Human Services (OVHA)

Medical Assistance Program (CFDA # 93.778)

Requirement

State agencies must establish and maintain a program for conducting periodic risk assessments to ensure that appropriate cost effective safeguards are incorporated into new and existing systems. Such risk analyses must be performed whenever significant system changes occur. In addition, state agencies shall review the ADP system security of installations involved in the administration of Health and Human Services (HHS) programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures and personnel practices. (45 CFR 95.621)

Condition Found

The Agency of Human Services (AHS) is the designated single state Medicaid agency. Within AHS, the Office of Vermont Health Access (OVHA) has been designated as the medical assistance unit although other AHS departments, such as the Departments of Children and Families (DCF), Aging and Independent Living (DAIL), and the Health (DOH) also play significant roles in the Medicaid program. Medicaid claims processing is performed through a combination of State and contractor systems and resources. For example, OVHA contracts with Electronic Data Systems Corporation (EDS) to process all Medicaid claims for payment. In addition, MedMetrics Health Partners, Inc. serves as the State's pharmacy benefit manager and approves pharmacy claims, which are sent to EDS for payment (MedMetrics, in turn, contracts with another service provider for the information technology (IT) aspects of the claims approval process). Although the State uses these contractors to perform important duties, the State itself is also a major control point for ensuring the integrity of the systems that are used. For example, the State controls access to the claims processing system by State personnel and approves changes to the system.

AHS and OVHA did not meet the requirement for a periodic risk assessment because the State has not performed a comprehensive risk assessment that encompasses all critical elements of the Medicaid program, including those performed by the State. Although EDS performed a risk assessment of its Vermont Medicaid operation, as of November 28, 2006, a report on this assessment had not been provided to OVHA. The risk assessment only encompassed EDS's operations and, therefore, does not cover all critical aspects of the Medicaid program.

The State has not performed a comprehensive ADP system security review of its Medicaid program. Although elements of such a review have been performed at the contractor level, these elements were not complete nor did they include an assessment of the State's security controls. Specifically, as required by its contract with OVHA, EDS obtains an independent examination of the effectiveness of controls related to the processing of its Vermont Medicaid claims processing system—called a SAS 70 review. According to EDS and OVHA officials, they work jointly to decide which control objectives will be reviewed each year.

However, the EDS SAS 70 reviews did not completely fulfill the State's responsibility for an ADP system security review because the 2005 and 2006 reports did not include, (1) significant control objectives, such as whether medical payments were processed accurately and timely, (2) controls related to significant activities performed by EDS affiliates, and (3) controls related to the State. With respect to the latter,

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according to the independent auditor, if effective State controls are not in place, then EDS' controls may not compensate for such weaknesses. In the case of pharmacy claims processing, OVHA's contract with MedMetrics does not require a SAS 70 review or other comparable independent security review. According to an OVHA Deputy Director, this was an oversight and OVHA is in the process of amending the contract to provide for such reviews.

This finding is considered to be a reportable condition.

Questioned Costs

None.

Recommendation

We recommend that AHS perform a comprehensive risk assessment of the Medicaid systems and control processes that includes all major State and contractor organizations and establish criteria to periodically revisit the risk assessment. In addition, AHS should perform a comprehensive ADP system security review of the Medicaid program that includes all major State and contractor organizations and establish a process to complete such reviews biennially. Finally, OVHA establish a process to ensure that major control objectives related to the EDS system security reviews are regularly reviewed.

Management's Response and Corrective Action

The required analysis has been performed. A final report is due to be issued by March 31, 2007.

Scheduled Completion Date: March 31, 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Internal Audit Chief, (802) 241-1091

STATE OF VERMONT

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Finding 06-30

Agency of Human Services

Medicaid 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.

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 QIO.

Condition Found

- A. The State Office of Vermont Health Access (OVHA) Clinical Unit conducts a program of utilization, peer review, and analysis that safeguards against unnecessary or inappropriate use of Vermont Medicaid covered services. During our testwork over the utilization review process, we noted the following:
- The State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services. 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). The OVHA Clinical Unit lacked a defined process and procedures manual outlining how to properly investigate and analyze a case; how to document their review and findings; how to extrapolate their findings to other cases to detect additional cases of fraud; or to provide the support for other departments on how to minimize a type of fraud from recurring by changing their processes and guidelines. In addition, pre-procedural reviews, pre-admission reviews, retrospective reviews, concurrent reviews were not performed.
 - Electronic Data Systems Corporation (EDS), the OVHA's fiscal intermediary, mails out Recipient Explanation of Medicaid Benefits (REOMB) forms to a sample of recipients monthly requesting that the recipients indicate whether the detailed services were received. If the information is correct, a response is not requested. OVHA does not track the responses received from the mailing and as a result, this process is not effective. In addition, in September 2005, OVHA noted that REOMB forms contained incorrect information and requested a system software change to prevent future errors. As of June 30, 2006, the system change has not been completed.

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- The State is required to provide clear statements of responsibility of the surveillance and utilization (SUR) functions that clarify the working relationships between the SUR and other entities such as the Medicaid Fraud Control Unit (MFRAU). We noted while potential areas of abuse are identified, it is unclear which unit within the Agency has the authority over the cases. As a result, a case may not be developed and procedures and policies are not implemented to prevent future abuses from occurring. One of the forty-two cases selected for testwork that were referred and reviewed by MFRAU, we noted that a suspected provider fraud case was not being investigated because MFRAU, SURS, and the Agency's provider monitoring unit disagree which of them has authority over the case. In addition, the units also did not have a method to track cases referred to each other to ensure that a referred case is followed up on.
- B. OVHA has entered into a contract with the University of Vermont and State Agricultural College (the University) to perform annual review of Medicaid Managed Care projects. The University is required to perform focused studies of patterns of care, individual case review in specific situations, measurement of the findings from the focused studies and individual case reviews against specified standards or parameters, and quality improvement. Individual case reviews and measurement of the findings in the case reviews were not performed due to a verbal agreement between OHVA and the University, however the contract was not amended and we were unable to verify this change in scope.
- In addition, to the above, the contract with the University also requires the University to monitor adherence to quality standards by performing focused studies on the following: childhood immunizations; high-risk pregnancy assessment, prenatal care, and birth outcomes; chronic asthma in children; identification and treatment of depression; diabetes screening and treatment; and medication use among Community Rehabilitation Treatment (CRT) program participants. The University is only performing the focused studies on diabetes screening and treatment and medication use among CRT program participants and that there is not an amendment to support such a change in the contract. As a result, we are unable to determine whether or not the State is properly monitoring the contract and obtaining the required results as outlined within the contract.
- C. One of the forty-two cases selected for testwork that were referred and reviewed by MFRAU related to an incorrect billing practice for anesthesia costs for one provider. MFRAU had opened the case as it appeared that the State had continued to pay the provider after the State had identified the incorrect billing practice. Due to lack of communication between MFRAU and SUR, MFRAU was unaware that SUR had resolved the case and that any payment that had been made in error had been recouped if necessary. In a similar matter related to anesthesia costs submitted by this provider, SURS selected a sample of anesthesia costs that were either less than or greater than the normal range expected for the procedure being performed. However, SURS did not have any procedures in place to investigate the case and to properly communicate the status of the case to MFRAU.

The above appears to be a systemic deficiency. The lack of procedures in place to properly document the results of utilization reviews could lead to unnecessary utilization of services and the State would not have any procedures in place for identifying the abuse of services in a timely manner. This finding is considered to be a material weakness.

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Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency develop policies and procedures to ensure the four types of reviews; pre-procedural, pre-admission, retrospective, and concurrent, are properly performed and documented to ensure compliance with the above stated requirements. In addition, we recommend that the Agency take the necessary steps to make sure that all changes to contracts with vendors are clearly noted in amendments to the contract in order to ensure that all required deliverables under the contract are properly received.

Management's Response and Corrective Action

There are a number of parts to this finding, so the corrective action plan is also multi-part.

A. Utilization and peer review:

1. The OVHA Clinical Unit lacked a defined process (for utilization review).

This issue is addressed in the Global Commitment FFY06 Annual Report:

The state has initiated several different mechanisms to verify encounter data. First, the Medicaid Surveillance and utilization Review System (SURS) Team within OVHA is charged with reviewing high utilization of Medicaid Services by individuals and/or providers. This includes: routine claims evaluation activities to identify unusual patterns in billing activity; routine provider performance review activities to identify administrative claims errors, misuse, and/or abuse; routine beneficiary reviews to identify overuse, underuse, and/or aberrant behavior; ad hoc provider specific auditing; ad hoc beneficiary specific utilization auditing; and annual reporting of findings and recommendations. Second, Vermont has field tested and adopted a Fraud Abuse Detection Decision-Support System (FADS) that will interface with the EDS claims system to provide electronic data reports to the SURS Team for their analytical use. See also the response to Section D of this finding.

2. Incorrect Information in Recipient Explanation of Medicaid Benefits

The information contained in the REOMB was not incorrect but rather duplicative in nature. In October 2006, a temporary fix was implemented to address this issue. In addition, OVHA has asked for changes to REOMBs to make them a more useful tool. Examples of the changes include: selection criteria for distribution targeting certain populations, clarifying text to provide user-friendly information to recipients, and structuring response format to obtain clearer information. This new format will give us the ability to track responses in a more effective manner. Those changes are ready to test. The permanent fix to the duplicative information issue will be installed when the other changes detailed herein are made permanent.

3. Coordination of AHS and Attorney General Investigatory Functions

Both OVHA and AHS have agreements on cooperation with MFRAU in place. The issue of coordination between MFRAU, a unit of the Vermont Attorney General's Office, and various

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departments arises in several findings. Part of the problem appears to be simple communication, but part of it arises from the differences between the administrative analysis and investigations of AHS departments and the investigation of potentially criminal activities by MFRAU. Communications are also made somewhat more difficult because the Vermont Attorney General is a separately elected constitutional officer, so arranging coordination requires going outside the executive branch. AHS proposes to establish an index of open cases of its departments and MFRAU and establish a periodic official communication to ensure that questions among the units are asked and answered.

B. Quality review contract with UVM:

1. That the contract was restricted to the CRT program.

This has been completed as was reported in the Annual report to CMS for the Global Commitment waiver.

2. That the UVM contract was amended verbally but not in writing.

The original EQRO contract with the UVM VT Child Health Improvement Project in 2004 included a provision for assistance with case studies within Vermont's primary care case management program, PC Plus. In June 2004, the focus of the contract was changed to analysis of the Community and Rehabilitative Treatment (CRT) program. The contract was amended to that effect. OVHA and UVM agreed that the CRT work would supercede the earlier work, but this was not reduced to writing. The EQRO contract for the Global Commitment waiver has been entirely rewritten, and it is now a contract between the Agency of Human Services and the Vermont Program for Quality in Health Care.

C. MFRAU coordination:

This is the same issue as A. 3. above.

D. Communication with MFRAU and SURS review:

The issue of communications with MFRAU is addressed in A. 3. above. The second issue in this part of the finding relates to the development of the SURS unit. OVHA has created a Program Integrity Unit; position requests were improved during the third quarter of the waiver year and are actively being filled. Staffing of a complete unit will bring together the Medicaid Surveillance and Utilization Review System (SURS) Team, the Fraud Abuse Detection Decisions-Support System (FADS) reporting, overall OVHA and AHS utilization review and investigative functions. The Program Integrity Unit has had a full time director since February and staffing has accelerated for the open positions. The director is determined to be fully staffed and operational before the end of the state's fiscal year.

Scheduled Completion Date: Ongoing with Program Integrity function to be operational by June 30, 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Internal Audit Chief, (802) 241-1091

STATE OF VERMONT

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Finding 06-31

Agency of Human Services

Medicaid (CFDA #93.778)

Requirement

All contracts under this part must(1) Include provisions that define a sound and complete procurement contract, as required by 45 CFR part 74;(2) Identify the population covered by the contract;(3) Specify any procedures for enrollment or reenrollment of the covered population;(4) Specify the amount, duration, and scope of medical services to be provided or paid for;(5) Provide that the agency and Health and Human Services (HHS) may evaluate through inspection or other means, the quality, appropriateness and timeliness of services performed under the contract;(6) Specify procedures and criteria for terminating the contract, including a requirement that the contractor promptly supply all information necessary for the reimbursement of any outstanding Medicaid claims;(7) Provide that the contractor maintains an appropriate record system for services to enrolled recipients;(8) Provide that the contractor safeguards information about recipients as required by part 431, subpart F of this chapter;(9) Specify any activities to be performed by the contractor that are related to third party liability requirements in part 433, subpart D of this chapter;(10) Specify which functions may be subcontracted; and (11) Provide that any subcontracts meet the requirements of paragraph (b) of this section. (42 CFR 434.6)

Condition Found

The State Medicaid Agency may apply for a waiver of federal requirements. Waivers are intended to provide the flexibility needed to enable States to try new or different approaches to the efficient and cost-effective delivery of health care services, or to adapt their programs to the special needs of particular areas or groups of beneficiaries. Waivers allow exceptions to State plan requirements and permit a State to implement innovative programs or activities on a time-limited basis, and are subject to specific safeguards for the protection of beneficiaries and the program. Effective October 1, 2005, the State of Vermont began to operate a portion of its Medicaid program under an 1115 Demonstration Waiver that was approved by the Centers for Medicare and Medicaid Services (CMS). This Demonstration Waiver is referred to as Global Commitment to Health Waiver (the Waiver).

As part of the Waiver, the Agency of Human Services (the Agency) entered into an intergovernmental agreement, or contract, with the Office of Vermont Health Access (OVHA), a component of the Agency. This intergovernmental agreement outlined that OVHA would be acting as a Managed Care Organization (MCO) for the State of Vermont's Medicaid program under the waiver. The intergovernmental agreement provided in detail the requirements that both OVHA and the Agency would comply with. During our testwork over the intergovernmental agreement, we noted the following:

- A. Section 1.4, Prohibited Affiliations, prohibits OVHA from knowingly having a relationship with an individual or an affiliate who is debarred, suspended, or otherwise excluded from participating in procurement activities under the Federal Acquisition Regulation or from participating in nonprocurement activities under regulations issued under Executive Order No. 12549 or under guidelines implementing Executive Order No. 12549. A relationship was defined as a director or officer of OVHA or a person with an employment, consulting or other arrangement with OVHA. As

STATE OF VERMONT

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of June 30, 2006, OVHA did not have a system in place to ensure whether or not any of their employees had been suspended or debarred.

- B. Section 2.2.2, Eligibility for the Global Commitment to Health Waiver, states that OVHA is responsible for the verification of the current status of an individual's Medicaid/VHAP eligibility with the Economic Services Division (ESD) within the Agency, which makes these eligibility determinations. While the ESD or other delegated departments within the Agency may make the initial eligibility determination for individuals under the Waiver, OVHA shall retain responsibility for final eligibility determinations for Waiver populations. As of June 30, 2006, OVHA relies solely on the eligibility determinations made by ESD or other delegated Departments and does not have any procedures in place to obtain or review on a sample basis the information used determine eligibility under the Waiver to ensure it is correct and accurate, nor are there any plans to develop the necessary procedures.
- C. Section 2.24, Loss of Eligibility/Disenrollment from the Demonstration, requires OVHA to compare, on a monthly basis, the active Waiver enrollee list (the roster) with the ESD's Medicaid/VHAP eligibility list to confirm the Medicaid/VHAP status for all Waiver enrollees. OVHA shall not receive a capitation payment for any individual who is not eligible under the Waiver. OVHA has a full time staff position whose responsibility it is to reconcile differences between the two systems. There are many reports and procedures in place for daily monitoring and adjustments. During our testwork, we were unable to obtain any of these reports to verify that these procedures were in place as of June 30, 2006 as required by this special test and provision.
- D. Section 2.4.4, Provider Contracting and Credentialing, requires OVHA to ensure that all providers participating in the Waiver meet the credentialing requirements established by the Agency for the Medicaid program. At a minimum, OVHA shall ensure that all Waiver providers are licensed and/or certified where required, and are acting within the scope of that license and/or certification. During our testwork, we noted that OVHA relies on other Departments with the Agency to review various treatment providers used under the Waivers. These providers typically include Designated Agencies used for Mental Health and Developmental Services. During our testwork we were unable to verify that as required under this special test and provision OVHA obtains and reviews any results of the reviews that are performed by other Departments, nor was there any evidence provided to us that reviews were performed over physicians, such as primary health care providers, to ensure that they are operating within the scope of their license and/or certification.
- E. Section 2.4.5, Provider Profiling, requires OVHA to conduct provider profiling activities, including producing monthly information on enrollment, service encounters, costs, reimbursements, and outcomes for all health services provided to Waiver enrollees through its subcontracted Departments. As of June 30, 2006, these provider profiling activities were not being performed as required by this special test and provision.
- F. Section 2.9.2, Utilization Management Plan, requires OVHA to develop and maintain a comprehensive Utilization Management Plan to identify potential over and under utilization of services. OVHA shall adopt program guidelines that are based on valid clinical evidence, or based on the consensus of health care professionals, consideration of the needs of the enrollees, and consultation with health care professionals who participate in the Waiver and other program

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stakeholders. As of June 30, 2006, OVHA did not have a comprehensive Utilization Management Plan in place and was not performing any procedures to identify over and under utilization of services as required by this special test and provision.

- G. Section 2.11, Enrollee Records, requires OVHA (and its subcontracted Departments) to ensure that each enrollee served under the Waiver has a comprehensive medical record. During our testwork, we noted that subcontracted departments during their review process select a sample of enrollee records to ensure the completeness and reasonableness of the services being performed. These reviews typically include designated agencies used for Mental Health and Developmental Services. However, we were unable to determine that reviews of enrollee records were performed over other physicians, such as primary health care providers, as required by this special test and provision.
- H. Section 2.13, Fraud and Abuse, requires OVHA to have both administrative and management procedures, and a mandatory compliance plan, to guard against fraud and abuse. As of June 30, 2006, OVHA had not implemented the required procedures or compliance plan as required by this special test and provision.
- I. Section 3.3, Performance Evaluation, requires the Agency to monitor and evaluate OVHA's compliance with the terms of the intergovernmental agreement, perform medical audits at least annually as required by 42 CFR 434.63, and contract with an External Quality Review Organization for purposes of independently monitoring OVHA's Quality Management Program. As of June 30, 2006, the Agency did not perform any reviews over the performance of OVHA, as required by the special test and provision with the exception of quarterly reviews and discussions of OVHA's work plan that were performed in conjunction of the quarterly reporting that was required between the Agency and CMS. In addition, an External Quality Review Organization was contracted with the period ending June 30, 2006, however the External Quality Review Organization was contracted with by OVHA and not by the Agency.
- J. Section 3.9, Third Part Liability, requires OVHA to be responsible for identifying and pursuing accident insurance and estate recovery; and all other sources of third party liability (TPL). The Agency is required to monitor OVHA's experience in identifying sources of third party liability or coverage and in collecting funds due to it through these resources. OVHA reports TPL collections by category to the Agency monthly. As part of our audit, we were unable to obtain from OVHA the listing of TPL claims to test as part of our audit. In addition, we were unable to obtain any documentation to show that the State was actively pursuing TPL claims once identified to show that the claimed amounts are collected over a reasonable time period as required by this special test and provision.
- K. Section 4.1, Capitation Payment between the Agency and OVHA, states that OVHA shall be paid federal Medicaid matching funds based on eligible Waiver enrollees at the capitated monthly amounts approved by the Agency and CMS under the Waiver terms and conditions. We noted that the Agency did not pay OVHA as outlined by the intergovernmental agreement, but instead the Agency paid OVHA 1/12 the annual federal allotment on a monthly basis. The Agency did not provide to us a final billing computation to show that the amount paid by the Agency to OVHA was based on the above required payment methodology as required.

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- L. Section 4.3, Restrictions on Use of Excess Funds, states that should OVHA have any excess funds after making all payments to its providers, including its subcontracted Departments, for Waiver enrollees, those excess funds may be used to support health initiatives in the State of Vermont. These costs are referred to as MCO Investments by the Agency and OVHA. During our testwork over the MCO investments, we noted the following:
- OVHA was reimbursed \$661,331 for salary costs paid to the Department of Banking, Insurance, Securities and Health Care Administration (BISCHA). We were unable to obtain any supporting documentation to test the validity of the costs paid and are unable to determine whether or not these costs are allowable.
 - OVHA was reimbursed \$1,636,591 for services performed under a contract with a University. We were unable to obtain this contract to determine what the nature of the contract was and as a result, we were unable to determine whether or not these costs were allowable.
 - OVHA was reimbursed \$1,372,713 for salary and contract payments made by the Department of Corrections. In regards to the contract, the costs paid under the contract for July through September 2005 were charged to the Waiver, and are not allowable as the Waiver did not go into effect until October 1, 2005. In addition, there are several services provided under this contract, such as education services, that do not appear to be health care related. Given this, it does not appear reasonable that the entire contract amount would be charged to the Waiver. In regards to the salary costs, salary costs were allocated to the Waiver using a percentage rate of 30%. However, there is no documentation to support that 30% of the salary charged was health care related. As a result, we are unable to determine whether or not these costs are allowable.
 - OVHA was reimbursed \$3,741,792 for health care related services provided through the Department of Education. Of this amount we were unable to obtain supporting documentation for \$981,775 that was paid to OVHA. As a result, we are unable to determine whether or not these costs were allowable.

The above deficiencies appear to be systemic in nature and the finding is considered to be a material weakness.

Questioned Costs

\$4,652,410.

Recommendation

We recommend that the Agency and OVHA implement the necessary policies and procedures to ensure that the intergovernmental agreement between the Agency and OVHA is monitored and the specific requirements as outlined in the agreement are implemented to ensure compliance with the Medicaid program.

Management's Response and Corrective Action

This is a finding regarding the implementation of the intergovernmental agreement between the Agency of Human Services (AHS) and the Office of Vermont Health Access (OVHA). OVHA is the Managed Care

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Organization (MCO) under the Vermont Global Commitment to Health (GC) Section 1115 Medicaid waiver. There are twelve elements in this finding.

- A. System to determine if OVHA employees had been suspended or debarred from federal procurement or nonprocurement activities: OVHA employees are state employees. The AHS Human Resource Unit completed checking for suspension or debarment by January 17, 2006 and any required personnel actions had been taken. Checking for suspension or debarment of candidates for OVHA positions has been added to the hiring process.
- B. OVHA responsibility for Medicaid eligibility: The Intergovernmental Agreement continues to be refined based on experience. It is proposed that this section reflect the former and continuing practice that Medicaid eligibility determinations are made by AHS departments and are not subject to final determination by OVHA.
- C. Reconciliation of ESD and EDS eligibility files: The daily eligibility updates from the state's Economic Services Division (ESD) ACCESS eligibility system and the daily update of the MMIS maintained by EDS, Inc. are compared for differences by an OVHA employee. Identified differences are reconciled to ensure that the MMIS is in agreement with the ACCESS eligibility system maintained by ESD. Test data of the process will be provided for the independent auditor as required.
- D. Provider credentialing: Provider credentialing is a contractual obligation of the MMIS operator, EDS. Most providers managed through AHS departments are paid through the EDS system and are therefore credentialed through that system. There are PNMI and out-of-state residential facilities directly under contract with the Department for Children & Families. These providers are licensed by the Vermont or other state's licensing boards and their rates are set by a public rate-setting process.
- E. Provider profiling: The change from being a payer for services to being a manager of health is obviously a major task. Part of the challenge is the creation of the management information required while continuing to operate the existing system of care. As CMS is aware, both AHS and OVHA have been working to establish the relationships and organizational linkages to enable care management. This is an ongoing task the progress of which CMS is informed quarterly.
- F. Utilization management plan: Finding 06-30 appears concern the same issue, a concern about the progress in implementing the utilization review process following the end of the Delmarva contract to provide the services. This finding states the issue in the context of OVHA's intergovernmental agreement with AHS.
- G. Medical record review: The Intergovernmental Agreement will be modified to provide that the agency will meet the requirements of 42 CFR Secs. 438 with regard to information and the confidentiality of medical records. This will be done through the EQRO contract.
- H. Implementation of procedures to guard against fraud and abuse: Finding 06-30 appears concern the same issue, a concern about the progress in implementing the program integrity function. This finding states the issue in the context of OVHA's intergovernmental agreement with AHS.

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- i. MCO performance evaluation: Given the construct of a public MCO, AHS is in the position of both supervising and supporting its MCO, OVHA. During the initial states of the definition and development of this unique arrangement, AHS has necessarily concentrated on creating and developing the capacity of the MCO rather than in performing the role of arms length evaluator. Both roles are inherent in the arrangement and the relative emphasis given to each will depend on the development of the waiver demonstration.
- J. TPL collections: Finding 06-30 raises the same issue. AHS is not receiving monthly TPL collections reports and monitoring them. This procedure began in January, 2007. Quarterly reviews of the reports with OVHA's TPL unit will begin following receipt of the March 2007 report.
- K. Capitation payment: The required computed capitation rates were included in the IGA revision of January 29, 2007.
- L. Restrictions on use of Excess Funds: This is a subject of discussion with CMS and is being resolved to its satisfaction.

Scheduled Completion Date: Various

Contact Person(s)

Jan Wastervelt, Agency of Human Services Internal Audit Chief (802) 241-1091

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Finding 06-32

Agency of Human Services (AHS)

Reimbursement of State Costs for Provision of Part D Drugs (CFDA #93.794)

Requirement

Costs must be reasonable and necessary for the performance and administration of federal awards. Costs must be allocable to the federal awards under the provisions of the cost principles or CASB Standards, as applicable. A cost is allocable to a particular cost objective if the goods or services involved are charged or assigned to such cost objectives in accordance with relative benefits received.

Condition Found

Effective January 1, 2006, States transitioned to Medicare Part D coverage. Under the transition to the Medicare Part D plan, some States received reimbursement for certain costs under a new demonstration project authorized under Section 402 of the Social Security Act Amendments of 1967, as amended. The Agency of Human Services (the Agency) for the State of Vermont entered into a demonstration waiver with the Centers for Medicare and Medicaid Services (CMS) to reimburse the Agency of costs incurred as a result of this transition. During our testwork, we noted the following:

- A. Under the demonstration waiver, the Agency is to be reimbursed for prescription drug costs paid to dual eligible individuals who are not enrolled in a Medicare Prescription Drug Plan, or are enrolled but were unable to use coverage, or enrollment process is initiated but is not completed. The Agency was only eligible for reimbursement for claims incurred between January 1, 2006 through March 31, 2006. During our testwork, two out of sixty claims selected for testwork represented claims that were incurred prior to March 31, 2006, but were subsequently reversed by the provider. As a result, the claim was not paid by the Agency and should not have been submitted for reimbursement to CMS. The amount reimbursed under these two claims was \$92.
- B. Under the demonstration waiver, the Agency is reimbursed for administrative costs incurred which are directly related to technical support to providers or directly related to ensuring the correct enrollment of individuals into a Medicare Part D plan when those individual's previous plan enrollment are not completed or do not accurately reflect their status as dual eligibles or low-income subsidy beneficiaries during the waiver period and for administrative costs directly related to the claims processing/reconciliation activities for Part D drugs for the dates of services covered under the demonstration. During our testwork over administrative costs, we noted the following:
 - We were unable to obtain documentation to support the reimbursement of salary costs in the amount of \$466,079. As a result, we are unable to determine that these costs are allowable.
 - The Agency was reimbursed \$225,365 for technology costs including computers and telephone headsets that were used to support a call center established by the Agency to answer questions for both beneficiaries and pharmacies related to Medicare Part D. The Agency purchased telephone headsets and computers so that each person within the call center would have their own equipment. Now that the demonstration period is over, most of this equipment is no longer

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being used by the Agency and does not appear to have been a reasonable cost to support the operation of the demonstration waiver.

- The Agency was reimbursed \$22,177 for postage and relating mailings. While we were able to obtain the invoices to support the amount paid, we were not provided documentation to support what was mailed to ensure that the costs charged were actually related to the demonstration waiver.

C. Section 7 of the demonstration waiver required the Agency to require pharmacies to primarily bill the Medicare Part D plan or use the Medicare point-of-sale billing before relying on State payment. Based on discussions with the Agency, the Agency did not require pharmacies to follow this billing practice and as a result, there is no evidence to support that the Agency complied with this special test and provision of the demonstration waiver.

The above deficiencies appear to be systemic in nature. This finding is considered to be a material weakness.

Questioned Costs

\$713,621 – this is computed by adding the known questioned costs from bullet 1 above.

Recommendation

We recommend that the Agency review its policies and procedures for submitting claims under the Medicare demonstration waiver and to ensure that all claims are valid and are properly documented as required by OMB Circular A-87.

Management's Response and Corrective Action

The Office of Vermont Health Access administered the waiver program and documented its administrative costs in accordance with the guidance it received from CMS and its waiver contractor Pacific Consulting Group (PCG). KPMG, the independent auditors, does not believe that the documentation standard accepted by PCG was adequate under OMB Circular A-133. In response, OVHA has assembled and continues to develop additional documentary evidence of its costs, but this was not done in time to allow KPMG to audit the evidence. Given the circumstances under which OVHA, CMS, PCG and all waiver participants were operating, it is true that the normal accounting documentation standards, particularly that relating to the time of personnel who were diverted from their usual duties to respond to a crisis, were not always met. Nonetheless, it is certain that the allowable cost is substantially greater than the 8% that KPMG did not question.

Scheduled Completion Date: June 30, 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Internal Audit Chief, (802) 241-1091

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Finding 06-33

Agency of Human Services

Block Grant for the Prevention & Treatment of Substance Abuse (CFDA #93.959)

Requirement

A pass-through entity is responsible for:

- *During-the-Award Monitoring* – Monitoring the subrecipient’s use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.
- *Subrecipient Audits* – Ensuring the required audits are completed within nine months of the end of the subrecipient’s audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient’s audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.
- *Pass-Through Entity Impact* – Evaluating the impact of subrecipient activities on the pass-through entity’s ability to comply with applicable federal regulations.

Condition Found

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

- A. Grant Control Forms are completed for each grant and signed as an indication of the grant being approved. One of thirty grants selected for testwork did not have an approval signature on the grant control form.
- B. Eleven of thirty grantees selected for testwork were subject to an on site monitoring visit. For seven of eleven grants selected for testwork, on-site monitoring visits had little or no documentation summarizing the results of the on-site monitoring visit with the grantee and if applicable, whether the Department had followed up with the grantee concerning any matters requiring further attention. In one instance the Department had been required to follow up on some issues related to the visit, however there was no documentation to support that any follow up had been performed.
- C. For two of thirty grants selected for testwork, the Department did not review the State of Vermont’s grant tracking system to determine whether or not there were any findings or other issues that the Department should follow up on.
- D. For fifteen of thirty grants selected for testwork, no management decision letter related to the subrecipient’s OMB Circular A-133 audit had been issued by the Department as required by OMB Circular A-133.

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

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Questioned Costs

None noted.

Recommendation

We recommend that the Department implement the necessary control policies and procedures to monitor subrecipients to help ensure accurate compliance with federal regulations.

Management's Response and Corrective Action

- A. The unsigned form was a routing sheet to direct the order of processing. The grant was properly completed and signed. The routing form will be changed to make clear that it is not an official grant document.
- B. The Department will review its monitoring documentation with the Agency of Human Services (AHS) Internal Audit Group (IAG) to ensure its ability to demonstrate the monitoring performed.
- C. & D. See below:

The responsibility for subrecipient compliance with the OMB Circular A-133 audit requirement will be undertaken by the Agency of Human Services (AHS) Internal Audit Group (IAG) on behalf of pass-through entities. The IAG will establish its own controls and procedures with regard to handling subrecipient audits.

First, IAG will confirm that the auditee was designated by the Department of Finance & Management as being required to have an A-133 audit. Procedures will include confirmation of receipt of Certificate of Audit Requirement by the Vermont Department of Finance & Management and review of the grantee's payments in the VISION accounting system. Attachment C of the standard Vermont state grant agreement will also be changed to require subrecipients to submit audit reports to the AHS Internal Audit Group if AHS is the lead agency. A checklist of incoming audits as well as a VISION update for audit submission will be kept. A postcard (receipt) of the audit report, listing components, will be sent to the subrecipient. Missing sections of the audit report will be requested. If AHS is not the lead agency, the IAG will follow up with the lead agency and respond to any findings or questions and will note this in the VISION system.

The staff of IAG will review each audit using the Review of Compliance with Office of Management & Budget Circular A-133 checklist. Each audit will be signed and dated by the reviewer. The checklist will be kept with the audit report and filed in the IAG office for three years. The reviewer will also enter into the VISION subrecipient module pertinent review information, findings and will date the review.

The reviewer will summarize the findings and corrective actions. IAG will then communicate the summary in writing to the pass-through entity representative and request that the pass-through issue a management decision letter to the auditee with a copy to the IAG. The copy will be filed with the audit report and kept in the IAG office for three years. The IAG will keep a check list of management decision letters requested and received in the IAG office.

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Scheduled Completion Date: June 30, 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Internal Audit Chief, (802) 241-1091

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Finding 06-34

Agency of Human Services

Block Grant for the Prevention & Treatment of Substance Abuse (CFDA #93.959)

Requirement

Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended and debarred or whose principals are suspended or debarred. Effective November 26, 2003, only those procurement contracts for goods or services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000 or meet the certain other specified criteria are considered covered transactions in addition to procurement contracts for goods or services equal to or in excess of \$100,000.

Condition Found

The Department does not have any policies to verify whether a vendor has been suspended or debarred from receiving federal funds. As a result, the Department did not verify whether or not the vendor had been suspended or debarred from receiving federal funds for four of thirty items selected for testwork in which the vendor had been paid more than \$25,000.

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

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department implement its procedures for monitoring and documenting whether or not contracted vendors have been suspended or debarred from receiving federal funding.

Management's Response and Corrective Action

For some time the standard Vermont state contract has included self-declaration language regarding suspension and debarment from doing business with the federal government. This contract form was not used in two instances that have resulted in multiple findings with regard to compliance with this requirement. One instance was that the statewide purchasing contracts of the Department of Buildings and General Services (BGS) available to all state departments did not include the required language. The other instance occurred when BGS issued a Blanket Delegation of Authority (BDA) for purchase of specific items to a department. The BDA form did not remind departments of their obligation to test for suspension or debarment and the departments did not think of it when they issued purchase orders.

BGS purchasing contracts now include the required self-declaration language regarding suspension and debarment. BDAs, which are re-issued each January, now include language requiring the departments to include the same language regarding suspension and debarment in contracts or purchases made under the BDA as is in the standard contract. The Agency of Human Services (AHS) Internal Audit Group will annually test purchases made under BDAs to see that the suspension and debarment requirement is met.

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Schedule Completion Date: January 2007

Contact Person(s)

Jan Westervelt, Agency of Human Services Internal Audit Chief, (802) 241-1091

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Finding 06-35

Department of Public Safety

Homeland Security Cluster:

State Domestic Preparedness Equipment Support Program (CFDA #97.004 and #16.007)

Homeland Security Grant Program (CFDA #97.067)

Requirement

A pass-through entity is responsible for ensuring required audits are completed within nine months of the end of the subrecipient's audit period, issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Condition Found

The Department grants funds to various first responders throughout the State of Vermont. In order to ensure that the funds are being used in accordance with federal requirements, the Department has implemented various subrecipient monitoring activities that are performed throughout the year. As required by OMB Circular A-133, the Department is required to obtain and review financial statements and A-133 audit reports that are issued by the grantees. We noted that the OMB Circular A-133 audits submitted to the Department were not reviewed and a management decision regarding the audit finding was not made within six months of receiving the audit for all three of the grants selected for testwork.

This finding appears to be systemic in nature and is considered to be a reportable condition.

Question Costs

None noted.

Recommendation

We recommend that the Department evaluate its existing policies, procedures and controls over subrecipient monitoring to ensure that the Department is issuing management decision letters for OMB Circular A-133 audit reports within the required time period.

Management's Response and Corrective Action

The Audit Unit of the Administrative Services Division of the Department of Public Safety has implemented a plan to comply with responsibilities charged to the organization as a non-Federal Pass-through Grantor of Federal Awards (NFE) under the mandate of the Federal Office of Management and Budget Circular A-133. The following actions were implemented prior to December 31, 2006:

- The Audit Unit of the Department of Public Safety has reviewed all Single Audit Reports and accompanying Financial Statement Audits issued during the State Fiscal year ended June 30, 2006 for sub-recipient entities that the Department of Public Safety has been assigned to be the Cognizant

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state Agency in accordance with the Vermont Agency of Administration *Administrative Bulletin 5.0* and all accompanying *Issues Briefs*.

- Following the review of the A-133 Single Audit Reports, the DPS Accounting and Auditing Analyst, formally issued Management Decision Letters, and if merited, a Management Request for Corrective Action Plan letters prior to, Thursday December 28, 2006. Any and all peripheral State Agencies with a material financial interest in the respective sub-grantee are included in the courtesy copy distribution of the letter.
- At the time of issuance of the Management Decision Letter, the *Sub-recipients Grant Tracking-Review Panel*, contained within the Statewide Vision Financial Reporting Module, was updated and any details regarding the results of the Single Audit Review conducted by the DPS Accounting and Auditing Analyst are included in the six binary boxes, or the "Comments on Findings" text box.

In order to ensure prospective compliance with this fiduciary responsibility, the Audit Unit of the department has enacted the following policy to continuously self-evaluate its progress in reviewing the Single Audit Report's and track the issuance of Management Decision Letters associated with these A-133 Single Audits Reports:

- DPS has implemented a policy of systematically running VISION reports on DPS sub-recipients. The reports are run at strategic points throughout the calendar year (45 and 60 days) after the three fiscal year ends commonly utilized by DPS sub-grantees (12/31, 6/30 & 9/30). The Department of Finance and Management Statewide Reporting Analyst requires that an entity receiving Federal financial Assistance through the State file a Schedule of Federal Expenditure and the Accompanying Certificate of Single Audit form no later than 45 days following their close of the fiscal year.
- If an entity, in which DPS has been assigned to be the State Primary Agency, reports that they will be required to have A-133 Audit Performed (due to the aggregated expenditure of federal assistance monies of greater than \$500,000); the DPS Accounting and Auditing Analyst contacts the principal(s) of the sub-awardee organization and explains the role of the Department in monitoring the Audit Report in accordance with Agency of Administration Bulletin 5.0 as well as OMB A-133. The representative of the Auditing Unit requests that the report be remitted to his/her attention as soon as it is completed but by no later than 9 months following the sub-recipient's fiscal year end.
- The Department of Public Safety auditing and Accounting Analyst reviews the Single Audit Report and responds in writing with a Management Decision Letter and/or Request for Corrective Action by no later than 6 months following the date that the report was received by the DPS Audit Unit. Once the letter is issued the VISION reporting module is updated, and courtesy copies are sent any State Agencies that have federal expenditures included in the A-133 reports required, Schedule of Federal Expenditures.

Schedule Completion Date: December 28, 2006; On-going

Contact Person(s)

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Finding 06-36

Department of Public Safety

Homeland Security Cluster:

State Domestic Preparedness Equipment Support Program (CFDA #97.004 and #16.007)

Homeland Security Grant Program (CFDA #97.067)

Requirement

Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Effective November 26, 2003, only those procurement contracts for goods or services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000 or meet the certain other specified criteria are considered covered transactions in addition to procurement contracts for goods or services equal to or in excess of \$100,000.

Condition Found

The Department does not have any policies in place to verify whether a vendor has been suspended or debarred from receiving federal funds. As a result, the Department did not verify whether or not the vendor had been suspended or debarred from receiving federal funds for all thirty-five equipment purchases selected for testwork.

This finding is considered systemic in nature and has been reported as a material weakness.

Questioned Costs

None noted.

Recommendation

We recommend that the Department implement its procedures for monitoring and documenting whether or not contracted vendors have been suspended or debarred from receiving federal funding.

Management's Response and Corrective Action

The Administrative Services Division of the Department of Public Safety has developed and implemented the following policies and procedures to address this material weakness:

Department of Public Safety
Excluded Parties Policy and Procedures
February 22, 2007

It is the policy of the Department of Public Safety to assure that parties who have been specifically excluded from receiving Federal contracts, financial and nonfinancial assistance and benefits do not receive such benefits as a result of grants and contracts issued by the Department of Public Safety or the State of Vermont through its state-wide contracting system. **THIS PROCEDURE DOES NOT AFFECT CONTRACTORS, SUBRECIPIENTS OR VENDORS RECEIVING PAYMENTS MADE WITH NON-FEDERAL FUNDS.**

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The basis for determination of exclusion will be the EXCLUDED PARTIES LIST SYSTEM (EPLS) as submitted to the United States General Services Administration (GAO), Office of the Chief Acquisition Environment (IAE) Division, by Information Services Corporation (ISC). The EPLS website is found at epls.arnet.gov.

Procedure:

Subgrant Agreements: The individual responsible for the preparation of a subgrant agreement shall first determine whether or not the subrecipient is currently included on the EPLS by accessing the system and reviewing the list for the state as a whole or for the individual as they so choose. If the subrecipient does not appear on the current listing, the agreement can be prepared and the preparer will attest to the fact the list has been checked by marking the box on the subgrant cover sheet and signing their name.

The grant manager/preparer must also notify the subrecipient that it is incumbent upon them to likewise research the EPLS to determine if any subrecipient of there is excluded as well as any contractor or vendor who would receive payments from them as part of the subgrant process. Excluded parties may not participate in the contract at any point.

The Accounting Office is not required to take any further action other than to determine that the subgrant agreement cover sheet is properly completed.

The Department auditor(s) shall note requirements as specified in the Department's SUBRECIPIENT SITE MONITORING GUIDE AND ADMINISTRATIVE PROCEDURES COMPLIANCE REVIEW (the Audit Manual), page 29 Section L.3. Debarred parties, during the course of the monitoring visits.

Personal Services Contracts: The individual responsible for the preparation of the Contract Request Form shall first determine whether or not the vendor or any principals of the vendor are currently listed on the EPLS. If they are not listed, the contract process may proceed. If they are listed, the contract may have to be re-bid or the next bidder in line may be selected. The contract preparer must also notify the contractor that it is incumbent upon them to likewise research the EPLS to determine if any sub-contractor or vendor who would receive payments from them as part of the contract process is an excluded party. Excluded parties may not participate in the contract at any point.

State Purchasing Contracts: Central Purchasing does not, at this point, check their vendors against EPLS. Any person initiating an order against an existing state contract must first check the vendor name with EPLS.

Purchasing Procedures: When placing an order for materials using DPS Form 144 (Order Form), and the fund source is Federal (Fund 22005), check the vendor against the current EPLS and check the box indicated at the top of the form.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Non-Contract Vendor Payments: For any noncontract vendor payments made with Federal funds in whole or in part, Accounting (A/P) will have to check EPLS and so indicate on the invoice. If any such payments must first be reviewed/approved by a program person prior to payment by A/P, that person accepts the responsibility for checking EPLS and must so indicate on the invoice that the check has been made. NOTE: If the Order Form (DPS Form 144) already indicates that the vendor has been checked against EPLS, nothing more is required.

Public safety Administrative Services 2.23.20

Schedule Completion Date: Policy/Procedure Enacted: February 22, 2007

Contact Person(s)

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