



STATE OF VERMONT

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

Year ended June 30, 2007

STATE OF VERMONT

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

Year ended June 30, 2007

Table of Contents

	Page(s)
Independent Auditors' Report on the Schedule of Expenditures of Federal Awards	1-2
Schedule of Expenditures of Federal Awards	3-9
Notes to Schedule of Expenditures of Federal Awards	10-12
Independent Auditors' 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 <i>Government Auditing Standards</i>	13-14
Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	15-18
Schedule of Findings and Questioned Costs:	
Summary of Auditors' Results	19-21
Findings and Questioned Costs	23-80
Other Reports Issued Applicable to the Single Audit:	
The Comprehensive Annual Financial Report of the State of Vermont for the Year Ended June 30, 2007 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, 2007 was issued under separate cover by the Office of the State Auditor, State of Vermont	



KPMG LLP

P.O. Box 564
Burlington, VT 05402

Suite 400
356 Mountain View Drive
Colchester, VT 05446

**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 (the Schedule) of the State of Vermont (the State) for the year ended June 30, 2007. 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. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule, 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, 2007 in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2008 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 28, 2008

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

CFDA number	Federal agency/program title	Expenditures	Amounts passed through to subrecipients
US Department of Agriculture:			
10.025	USDA, Plant and Animal Disease, Pest Control, and Animal Care	\$ 327,693	—
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	570,544	—
10.551	Food Stamps (Cash)	10,267,198	—
10.551	Food Stamps (EBT)	44,760,359	—
10.553	School Breakfast Program	3,258,759	3,264,605
10.555	National School Lunch Program	9,982,675	9,970,607
10.556	Special Milk Program for Children	67,971	68,046
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	12,419,472	15,000
10.558	Child and Adult Care Food Program	4,047,218	4,016,720
10.559	Summer Food Service Program for Children	315,798	272,444
10.560	State Administrative Expenses for Child Nutrition	496,098	—
10.561	State Administrative Matching Grants for Food Stamp Program	8,059,765	3,899,260
10.565	Commodity Supplemental Food Program	241,087	241,087
10.568	Emergency Food Assistance Program (Administrative Costs)	87,604	51,000
10.572	WIC Farmers' Market Nutrition Program (FMNP)	75,406	—
10.574	Team Nutrition Grants	11,516	—
10.576	Senior Farmers Market Nutrition Program	83,979	63,600
10.664	Cooperative Forestry Assistance	1,469,468	127,480
10.676	Forest Legacy Program	1,976,808	—
10.769	Rural Business Enterprise Grants	16,987	—
10.902	Soil and Water Conservation	46,012	—
10.914	Wildlife Habitat Incentive Program	5,737	5,737
10.999	Organic Certification – Producers	123,508	—
10.999	Dietary Guidelines	38,789	16,283
		<u>98,750,451</u>	<u>22,011,869</u>
US Department of Commerce:			
11.407	Interjurisdictional Fisheries Act of 1986	—	7,012
US Department of Defense:			
12.002	Procurement Technical Assistance For Business Firms	219,723	—
12.100	Aquatic Plant Control	371,125	352,061
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	20,452	—
12.400	Military Construction, National Guard	4,542,528	—
12.401	National Guard Military Operations and Maintenance (O&M) Projects	11,124,925	—
12.404	National Guard Civilian Youth Opportunities	492,439	—
		<u>16,771,192</u>	<u>352,061</u>
US Department of Housing and Urban Development:			
14.228	Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii	6,540,144	6,701,117
14.231	Emergency Shelter Grants Program	356,446	346,703
14.239	HOME Investment Partnerships Program	4,365,022	—
14.246	Community Development Block Grants/Brownfields Economic Development Initiative	75,300	—
14.999	Office of Fair Housing-Assistance Grant	133,991	—
		<u>11,470,903</u>	<u>7,047,820</u>
US Department of the Interior:			
15.605	Sport Fish Restoration	3,265,144	—
15.608	Fish and Wildlife Management Assistance	77,045	71,190
15.611	Wildlife Restoration	1,557,089	—
15.615	Cooperative Endangered Species Conservation Fund	20,500	—
15.622	Sportfishing and Boating Safety Act	64,721	—
15.625	Wildlife Conservation and Restoration	48,631	—
15.631	Partners for Fish and Wildlife	13,125	10,000
15.633	Landowner Incentive	50,605	—
15.634	State and Wildlife Grants	479,957	139,234
15.810	National Cooperative Geologic Mapping Program	79,458	32,000
15.904	Historic Preservation Fund Grants-In-Aid	563,867	58,311

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

CFDA number	Federal agency/program title	Expenditures	Amounts passed through to subrecipients
15.916	Outdoor Recreation – Acquisition, Development and Planning	\$ 661,679	333,219
15.929	Save America’s Treasures	200,000	—
15.999	Historic Preservation-National Park Service-Mount Independence ADA Trail Project-Jeffords	196,221	—
		<u>7,278,042</u>	<u>643,954</u>
US Department of Justice:			
16.007	State Domestic Preparedness Equipment Support Program	410,808	264,828
16.523	Juvenile Accountability Block Grants	205,200	359,885
16.527	Supervised Visitation, Safe Havens for Children	361,131	361,670
16.540	Juvenile Justice and Delinquency Prevention – Allocation to States	606,207	769,698
16.541	Part E Developing, Testing and Demonstrating Promising New Programs	48,575	192,786
16.547	Victims of Child Abuse	53,879	—
16.550	State Justice Statistics Program for Statistical Analysis Centers	12,921	12,921
16.554	National Criminal History Improvement Program (NCHIP)	938,089	38,496
16.560	National Institute of Justice Research, Evaluation and Development Project Grants	367,141	16,355
16.564	Crime Laboratory Improvement – Combined Offender DNA Index System Backlog Reduction	20,383	—
16.575	Crime Victim Assistance	1,257,878	1,229,532
16.576	Crime Victim Compensation	236,350	—
16.579	Edward Byrne Memorial Formula Grant Program	971,829	314,980
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	1,515,654	137,294
16.585	Drug Court Discretionary Grant Program	135,599	—
16.588	Violence Against Women Formula Grants	823,907	763,555
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Staffing Grant Program	381,336	373,761
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	498,082	499,578
16.592	Local Law Enforcement Block Grant Program	26,722	—
16.593	Residential Substance Abuse Treatment for State Prisoners	49,555	49,555
16.607	Bulletproof Vest Partnership Program	31,538	6,803
16.609	Community Prosecution and Project Safe Neighborhoods	176,942	32,881
16.613	Scams Targeting the Elderly	66,318	—
16.710	Public Safety Partnership and Community Policing Grants	1,668,021	194,605
16.727	Enforcing Underage Drinking Laws Program	265,593	250,891
16.735	Protecting Inmates and Safeguarding Communities Discretionary Grant Program	131,700	—
16.738	Edward Byrne Memorial Justice Assistance Grant Program	547,264	225,788
16.744	Anti-Gang Initiative	24,355	18,227
16.999	Drug Enforcement Administration – DEA	7,736	—
16.999	Marijuana Education	19,546	—
16.999	Evidence (Asset Seizure) Forfeiture Funds (Justice & Treasury)	636,675	11,941
16.999	New England High-Intensity Drug Trafficking Areas (HIDTA)	48,025	—
16.999	Operation FALCON (US Marshall Svc)	3,789	—
		<u>12,548,748</u>	<u>6,126,030</u>
US Department of Labor:			
17.002	Labor Force Statistics	520,050	—
17.005	Compensation and Working Conditions	21,846	—
17.207	Employment Service/Wagner Peyser Funded Activities	2,811,308	—
17.225	Unemployment Insurance	89,379,654	—
17.235	Senior Community Service Employment Program (SCSEP)	479,943	475,948
17.245	Trade Adjustment Assistance	501,535	—
17.258	WIA Adult Program	1,771,561	—
17.259	WIA Youth Activities	1,888,014	145,586
17.260	WIA Dislocated Workers	1,238,798	—

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

CFDA number	Federal agency/program title	Expenditures	Amounts passed through to subrecipients
17.261	WIA Pilots, Demonstrations, and Research Projects	\$ 631,624	269,576
17.266	Work Incentives Grants	561,211	33,430
17.270	Prisoner Re-Entry	482,662	409,931
17.503	Occupational Safety and Health – State Program	812,434	—
17.504	Consultation Agreements	348,484	—
17.505	OSHA Data Initiative	5,750	—
17.600	Mine Health and Safety Grants	56,445	60,263
17.720	Disabilities Employment Policy Development	305,815	314,869
17.801	Disabled Veterans' Outreach Program	159,297	—
17.804	Local Veterans' Employment Representative Program	301,479	—
		<u>102,277,910</u>	<u>1,709,603</u>
	US Department of Transportation:		
20.106	Airport Improvement Program	1,782,078	36,446
20.205	Highway Planning and Construction	161,883,391	21,043,245
20.218	National Motor Carrier Safety	1,292,533	251,715
20.219	Recreational Trails Program	665,989	221,480
20.312	High Speed Ground Transportation/Next Generation High Speed Rail Program	44,743	—
20.314	Railroad Development	757,595	—
20.500	Federal Transit – Capital Investment Grants	558,606	564,289
20.505	Federal Transit – Metropolitan Planning Grants	306,823	293,204
20.509	Formula Grants for Other Than Urbanized Areas	8,592,101	8,131,286
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	313,844	313,844
20.514	Public Transportation Research	68,096	68,096
20.515	State Planning and Research	12,192	—
20.600	State and Community Highway Safety	1,016,720	671,758
20.601	Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grant	339,965	271,045
20.602	Occupant Protection	239,744	118,753
20.603	Federal Highway Safety Data Improvement Incentive Grants	43,423	—
20.604	NHTSA Safety Incentive Grants for Use of Seatbelts	50,017	13,694
20.700	Pipeline Safety	102,865	—
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	67,193	63,613
20.999	157 Innovative	132,921	—
20.999	Hazard Elimination	1,260,275	1,260,275
20.999	Child Passenger Protection Education	2,685	—
20.999	Fatal Accident Reporting System	17,238	—
		<u>179,551,037</u>	<u>33,322,743</u>
	US Department of Treasury:		
21.999	Bordergap	9,712	—
	US Equal Employment Opportunity Commission:		
30.002	Employment Discrimination – State and Local Fair Employment Practices Agency Contracts	83,250	—
39.011	Election Reform Payments	1,475,834	300,853
		<u>1,559,084</u>	<u>300,853</u>
	US National Foundation on the Arts and the Humanities:		
45.149	Promotion of the Humanities – Division of Preservation and Access	4,872	—
45.301	Museums for America	25,463	—
45.302	Museum Assessment Program	192	—
45.303	Conservation Project Support	4,569	—
45.310	State Library Program	782,628	45,515
		<u>817,724</u>	<u>45,515</u>
	US Department of Veterans Affairs:		
64.005	Grants to States for Construction of State Home Facilities	548,171	—
64.124	All – Volunteer Force Educational Assistance	67,170	—
		<u>615,341</u>	<u>—</u>
	US Environmental Protection Agency:		
66.032	State Indoor Radon Grants	104,920	26,250
66.034	Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	551,590	—
66.036	Clean School Bus USA	1,226	—
66.110	Healthy Communities Grant Program	7,176	—
66.436	Surveys, Studies, Investigations, Demonstrations and Training Grants and Cooperative Agreements – Section 104(B)(3) of the Clean Water Act	51,634	14,998
66.454	Water Quality Management Planning	64,925	25,410
66.458	Capitalization Grants for Clean Water State Revolving Funds	2,345,216	—

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

CFDA number	Federal agency/program title	Expenditures	Amounts passed through to subrecipients
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	\$ 30,590	—
66.468	Capitalization Grants for Drinking Water State Revolving Funds	10,001,418	267,666
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	182,372	141,692
66.474	Water Protection Grants to the States	51,534	
66.481	Lake Champlain Basin Program	284,012	43,000
66.511	Office of Research and Development Consolidated Research/Training	95,131	3,807
66.605	Performance Partnership Grants	4,774,652	279,966
66.606	Surveys, Studies, Investigations and Special Purpose Grants	57,736	38,846
66.608	Environmental Information Exchange Network Grant Program and Related Assistance	98,164	—
66.611	Environmental Policy and Innovation Grants	24,042	—
66.641	Wetlands Protection State Development	—	10,000
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	371,910	—
66.701	Toxic Substance Compliance Monitoring Cooperative Agreements	29,046	—
66.707	Title IV State Lead Grants Certification of Lead-Based Paint Professionals	123,195	—
66.802	Superfund State, Political Subdivision and Indian Tribe Site-Specific Cooperative Agreements	50,135	7,243
66.804	State and Tribal Underground Storage Tanks Program	84,857	—
66.805	Leaking Underground Storage Tank Trust Fund Program	647,410	—
66.808	Solid Waste Management Assistance Grants	10,416	—
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	122,540	—
66.817	State and Tribal Response Program Grants	360,395	74,332
		<u>20,526,242</u>	<u>933,210</u>
	US Department of Energy:		
81.039	National Energy Information Center	2,068	—
81.041	State Energy Program	683,762	522,318
81.042	Weatherization Assistance for Low – Income Persons	1,231,576	1,219,254
81.079	Regional Biomass Energy Programs	39,242	—
		<u>1,956,648</u>	<u>1,741,572</u>
	US Federal Emergency Management Agency:		
83.536	Flood Mitigation Assistance	20,532	20,550
83.544	Public Assistance Grants	189,408	176,110
83.557	Pre Disaster Mitigation	—	328
		<u>209,940</u>	<u>196,988</u>
	US Department of Education:		
84.002	Adult Education – State Grant Program	988,872	867,451
84.010	Title I Grants to Local Educational Agencies	31,167,846	30,405,988
84.011	Migrant Education – State Grant Program	826,166	705,615
84.013	Title I Program for Neglected and Delinquent Children	514,240	508,261
84.027	Special Education – Grants to States	24,861,742	23,219,317
84.048	Vocational Education – Basic Grants to States	4,047,277	3,542,052
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States	9,291,968	439,139
84.169	Independent Living – State Grants	223,686	146,388
84.173	Special Education – Preschool Grants	857,329	768,135
84.177	Rehabilitation Services – Independent Living Services for Older Individuals Who are Blind	295,994	225,000
84.181	Special Education – Grants for Infants and Families with Disabilities	2,138,714	1,011,133
84.185	Byrd Honors Scholarships	79,500	79,500
84.186	Safe and Drug-Free Schools and Communities – State Grants	1,909,757	1,952,515
84.187	Supported Employment Services for Individuals with Severe Disabilities	165,939	—
84.196	Education for Homeless Children and Youth	126,868	88,090
84.213	Even Start – State Educational Agencies	572,806	532,923
84.215	Fund for the Improvement of Education	4,007	16,933
84.224	Assistive Technology	370,750	—
84.235	Rehabilitation Services Demonstration and Training Programs	287,861	23,899
84.243	Tech-Prep Education	155,973	137,359
84.255	Literacy Programs for Prisoners	227,259	—
84.265	Rehabilitation Training – State Vocational Rehabilitation Unit In-Service Training	162,955	—
84.287	Twenty-First Century Community Learning Centers	5,067,453	4,881,376
84.298	State Grants for Innovative Programs	818,343	799,383
84.318	Education Technology State Grants	2,263,147	2,169,174
84.323	Special Education – State Program Personnel Development	707,995	638,328
84.330	Advanced Placement Program	17,319	—

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

CFDA number	Federal agency/program title	Expenditures	Amounts passed through to subrecipients
84.332	Comprehensive School Reform Demonstration	\$ 545,834	531,656
84.357	Reading First State Grants	2,708,221	2,669,735
84.365	English Language Acquisition Grants	412,240	275,660
84.366	Math and Science Partnerships	512,239	434,273
84.367	Improving Teacher Quality State Grants	15,210,139	14,888,913
84.369	Grants for State Assessments and Related Activities	3,130,675	—
84.938	Hurricane Education Recovery	54,000	54,000
		<u>110,725,114</u>	<u>92,012,196</u>
	US Department of Health and Human Services:		
93.041	Special Programs for the Aging – Title VII, Chapter 3 – Programs for Prevention of Elder Abuse, Neglect, and Exploitation	25,492	25,492
93.042	Special Programs for the Aging – Title VII, Chapter 2 – Long Term Care Ombudsman Services for Older Individuals	70,398	70,398
93.043	Special Programs for the Aging-Title III, Part D – Disease Prevention and Health Promotion Services	117,362	117,362
93.044	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers	2,098,228	2,098,228
93.045	Special Programs for the Aging – Title III, Part C -Nutrition Services	2,419,750	2,419,750
93.048	Special Programs for the Aging – Title IV and Title II – Discretionary Projects	265,691	98,357
93.051	Alzheimer’s Disease Demonstration Grants to States	336,669	275,750
93.052	National Family Caregiver Support, Title III, Part E	770,490	381,472
93.053	Nutrition Services Incentive Program	621,459	621,459
93.110	Maternal and Child Health Federal Consolidated Programs	226,578	22,829
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	108,407	12,000
93.127	Emergency Medical Services for Children	120,767	793
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	143,859	46,500
93.136	Injury Prevention and Control Research and State and Community Based Programs	267,133	140,337
93.150	Projects for Assistance in Transition from Homelessness (PATH)	298,138	—
93.197	Childhood Lead Poisoning Prevention Projects-State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	412,607	—
93.217	Family Planning – Services	826,878	823,186
93.230	Consolidated Knowledge Development and Application Program (KD&A)	143,548	—
93.234	Traumatic Brain Injury – State Demonstration Program	170,936	—
93.236	Grants for Dental Public Health Residency Training	11,402	—
93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies and Enhancement	21,791	—
93.241	State Rural Hospital Flexibility Program	374,149	239,397
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance	1,480,236	222,077
93.251	Universal Newborn Hearing Screening	59,845	—
93.256	State Planning Grants Health Care Access for the Uninsured	73,500	—
93.259	Rural Access to Emergency Devices Grant	106,657	—
93.268	Immunization Grants	2,181,046	10,000
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance	12,489,820	1,279,073
93.301	Small Rural Hospital Improvement Grant Program	67,897	67,896
93.556	Promoting Safe and Stable Families	560,317	98,937
93.558	Temporary Assistance for Needy Families	34,311,400	2,525,962
93.563	Child Support Enforcement	6,647,017	—
93.566	Refugee and Entrant Assistance – State Administered Programs	335,234	276,468
93.568	Low-Income Home Energy Assistance Program	19,678,093	2,127,591
93.569	Community Services Block Grant	3,275,494	3,105,422
93.575	Child Care and Development Block Grant	13,027,611	1,923,189
93.576	Refugee and Entrant Assistance – Discretionary Grants	134,192	—
93.586	State Court Improvement Program	129,550	—
93.590	Community – Based Child Abuse Prevention Grants	350,264	349,960
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	6,542,262	111,528
93.597	Grants to States for Access and Visitation Programs	117,609	121,561
93.599	Chafee Education and Training Vouchers Program (ETV)	125,743	127,107
93.600	Head Start	141,585	97,709
93.603	Adoption Incentive Payments	328,000	—
93.617	Voting Access for Individuals with Disabilities – Grants to States	56,881	56,881

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

CFDA number	Federal agency/program title	Expenditures	Amounts passed through to subrecipients
93.630	Developmental Disabilities Basic Support and Advocacy Grants	\$ 436,444	194,191
93.631	Developmental Disabilities Projects of National Significance	223,899	223,259
93.643	Children's Justice Grants to States	83,443	83,443
93.645	Child Welfare Services – State Grants	399,280	—
93.658	Foster Care – Title IV-E	10,713,028	—
93.659	Adoption Assistance	6,846,645	—
93.667	Social Services Block Grant	8,334,264	664,709
93.669	Child Abuse and Neglect State Grants	32,684	—
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters – Grants to States and Indian Tribes	727,120	715,375
93.674	Chafee Foster Care Independence Program	578,118	362,627
93.767	State Children's Insurance Program	5,298,677	—
93.768	Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	456,564	89,918
93.775	State Medicaid Fraud Control Units	420,729	—
93.777	State Survey and Certification of Health Care Providers and Suppliers	1,112,782	—
93.778	Medical Assistance Program	608,610,043	10,252,780
93.779	Centers for Medicare and Medicaid Services(CMS) Research, Demonstrations and Evaluations	991,127	344,342
93.786	State Pharmaceutical Assistance Programs	96,099	—
93.794	Reimbursement of State Costs for Provision of Part D Drugs	2,598,777	—
93.889	Public Health and Social Services Emergency Fund	1,812,700	—
93.913	Grants to States for Operation of Offices of Rural Health	156,149	54,000
93.917	HIV Care Formula Grants	906,528	388,973
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	483,660	113,821
93.940	HIV Prevention Activities – Health Department Based	1,457,215	633,608
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	89,555	—
93.945	Assistance Programs for Chronic Disease Prevention and Control	139,893	—
93.958	Block Grants for Community Mental Health Services	802,739	—
93.959	Block Grants for Prevention and Treatment of Substance Abuse	5,085,235	4,101,088
93.977	Preventive Health Services – Sexually Transmitted Diseases Control Grants	198,716	45,000
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	309,222	52,663
93.991	Preventive Health and Health Services Block Grant	264,726	42,184
93.994	Maternal and Child Health Services Block Grant to the States	1,710,495	922,724
93.999	ADAP Data Collection	32,296	—
		<u>773,480,837</u>	<u>39,179,376</u>
	US Corporation for National Community Service:		
94.003	State Commissions	114,207	—
94.004	Learn and Serve America-School and Community Based Programs	52,548	52,548
94.006	AmeriCorps	969,766	969,766
94.007	Planning and Program Development Grants	23,170	—
94.009	Training and Technical Assistance	98,448	—
		<u>1,258,139</u>	<u>1,022,314</u>
	US Social Security Administration:		
96.001	Social Security – Disability Insurance	3,220,242	—
96.008	Social Security – Work Incentives Planning and Assistance Program	67,346	19,980
		<u>3,287,588</u>	<u>19,980</u>
	US Department of Homeland Security:		
97.004	State Domestic Preparedness Equipment Support Program	2,218,507	1,125,190
97.012	Boating Safety Financial Assistance	362,159	70,000
97.017	Pre Disaster Mitigation (PDM) Competitive Grants	311,019	287,950
97.021	Hazardous Materials Assistance Program	9	—
97.023	Community Assistance Program – State Support Services Element (CAP – SSSE)	128,376	28,000
97.029	Flood Mitigation Assistance	111,511	104,472
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disaster)	15,518	—
97.039	Hazard Mitigation Grants	231,367	217,788
97.041	National Dam Safety Program	25,777	—
97.042	Emergency Management Performance Grants	1,472,407	202,725
97.043	State Fire Training Systems Grants	23,452	—
97.067	Homeland Security Grant Program	5,398,689	3,841,817
97.070	Map Modernization Management Support	199,842	107,254

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2007

CFDA number	Federal agency/program title	Expenditures	Amounts passed through to subrecipients
97.078	Buffer Zone Protection Program (BZPP)	\$ 278,417	100,283
97.090	Law Enforcement Officer Reimbursement Agreement Program	39,029	39,029
		<u>10,816,079</u>	<u>6,124,508</u>
	Total Monetary Federal Financial Assistance	<u>1,353,910,731</u>	<u>212,797,604</u>
	Nonmonetary Awards:		
10.555	National School Lunch Program – Commodities	1,717,439	1,717,439
10.558	Child and Adult Care Food Program – Commodities	15,427	15,427
10.565	Commodity Supplemental Food Program	442,641	—
39.003	Donation of Federal Surplus Personal Property	659,711	—
93.268	Immunization Grants	5,652,138	5,652,138
	Total Nonmonetary Federal Financial assistance	<u>8,487,356</u>	<u>7,385,004</u>
	Total Federal Financial Aid Expended	<u>\$ 1,362,398,087</u>	<u>220,182,608</u>

See accompanying notes to schedule of expenditures of federal awards.

STATE OF VERMONT

Notes to Schedule of Expenditures of Federal Awards

June 30, 2007

(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, 2007. 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, 2007. 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 \$4,087,194 in expenditures, distributions, or issuances for the fiscal year ended June 30, 2007.

(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, 2007

(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	\$	81,034,279
Federal		<u>8,345,375</u>
	\$	<u><u>89,379,654</u></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 2006 Schedule was compiled, only \$5,926,649 had been reimbursed to the State, and as such, this amount was recorded on the 2006 Schedule. During the year ended June 30, 2007, the State received additional reimbursement for the 2006 expenditures in the amount of \$2,598,777. This subsequent reimbursement has been included on the 2007 Schedule.

STATE OF VERMONT

Notes to Schedule of Expenditures of Federal Awards

June 30, 2007

(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) *Commodity Supplemental Food Program (CFDA 10.565)*

The Commodity Supplemental Food Program helps supplement the diets of low-income Americans, including elderly people, by providing them with 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 expenditure included in the Schedule for the Commodity Supplemental Food 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 vaccines to local health care providers 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.



KPMG LLP

P.O. Box 564
Burlington, VT 05402

Suite 400
356 Mountain View Drive
Colchester, VT 05446

**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, 2007, and have issued our report thereon dated March 28, 2008. 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*.

Our consideration of internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants, and other matters did not include the entities referred to in the previous paragraph. The findings, if any, for those entities are not included herein.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's Schedule 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 28, 2008



KPMG LLP

P.O. Box 564
Burlington, VT 05402

Suite 400
356 Mountain View Drive
Colchester, VT 05446

**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, 2007. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of 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 the Medicaid Cluster. Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to that program.

State agency/ department name	Federal program name	Compliance requirements	Finding number
Agency of Human Services	Medicaid Cluster	Special Tests and Provisions	07-13
Agency of Human Services	Medicaid Cluster	Special Tests and Provisions	07-14
Agency of Human Services	Medicaid Cluster	Allowable Costs, Eligibility, Reporting, Special Tests and Provisions	07-15
Agency of Human Services	Medicaid Cluster	Allowable Costs	07-16
Agency of Human Services	Medicaid Cluster	Allowable Costs	07-17
Agency of Human Services	Medicaid Cluster	Special Tests and Provisions	07-18
Agency of Human Services	Medicaid Cluster	Allowable Costs	07-19
Agency of Human Services	Medicaid Cluster	Allowable Costs and Eligibility	07-20

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the State did not comply in all material respects, with the requirements referred to above that are applicable to the Medicaid Cluster.

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 comply with requirements applicable to the identified major federal programs.

State agency/ department name	Federal program name	Compliance requirements	Finding number
Department of Labor	WIA Cluster	Federal Reporting	07-02
Department of Education	Special Education Cluster	Subrecipient Monitoring	07-04
Department of Education	Vocational Education - Basic Grants to States	Subrecipient Monitoring	07-05
Agency of Human Services	Immunization Grants	Subrecipient Monitoring	07-06
Agency of Human Services	Immunization Grants	Special Tests and Provisions	07-07
Agency of Human Services	Centers for Disease Control and Prevention – Investigations and Technical Assistance	Subrecipient Monitoring	07-08
Agency of Human Services	Child Support Enforcement	Special Tests and Provisions	07-09
Agency of Human Services	Child Support Enforcement	Special Tests and Provisions	07-10
Agency of Human Services	Child Support Enforcement	Special Tests and Provisions	07-11
Agency of Human Services	Block Grants for the Prevention and Treatment of Substance Abuse	Subrecipient Monitoring	07-21

Also, 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 other major federal programs for the year ended June 30, 2007. 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 07-01, 07-03 and 07-12.

Internal Control over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State’s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity’s internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 07-02, 07-03, 07-04, 07-05, 07-06, 07-07, 07-08, 07-09, 07-10, 07-11, 07-13, 07-14, 07-15, 07-16, 07-17, 07-18, 07-19, 07-20, and 07-21 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 07-02, 07-04, 07-05, 07-06, 07-07, 07-08, 07-09, 07-10, 07-11, 07-13, 07-14, 07-15, 07-16, 07-17, 07-18, 07-19, 07-20, and 07-21 to be material weaknesses.

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the state's response, and accordingly, we express no opinion on them.

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 28, 2008

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

(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) Significant deficiencies 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: **Yes**

- (b)(2) Significant deficiencies 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) Significant deficiencies 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:

Adverse Opinion:
Medicaid Cluster (CFDA 93.775, 93.777 and 93.778)

Qualified Opinion:
WIA Cluster (CFDA 17.258, 17.259, and 17.260)
Special Education Cluster (CFDA 84.027, and 84.173)
Vocational Education – Basic Grants to States (CFDA 84.048)
Immunization Grants (CFDA 93.268)
Centers for Disease Control and Prevention – Investigations and
Technical Assistance (CFDA 93.283)
Child Support Enforcement (CFDA 93.563)
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, 2007

(g) The State's major programs were:

<u>CFDA number</u>	<u>Name of federal program</u>
Food Stamp Cluster:	
10.551	Food Stamps
10.561	State Administrative Matching Grants for Food Stamp Program
Child Nutrition Cluster:	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children
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/Wagner Peyser Funded Activities
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
Special Education Cluster:	
84.027	Special Education – Grants to States
84.173	Special Education – Preschool Grants
Aging Cluster:	
93.044	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers
93.045	Special Programs for the Aging – Title III, Part C – Nutrition Services
93.053	Nutrition Services Incentive Program
Child Care Cluster:	
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

CFDA number	Name of federal program
Medicaid Cluster:	
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program
Other Programs:	
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
10.558	Child and Adult Care Food Program
12.400	Military Construction, National Guard
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
66.605	Performance Partnership Grants
84.010	Title I Grants to Local Educational Agencies
84.048	Vocational Education-Basic Grants to States
84.367	Improving Teacher Quality State Grants
93.268	Immunization Grants
93.283	Centers for Disease Control and Prevention – Investigations and Technical Assistance
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.568	Low-Income Home Energy Assistance Program
93.658	Foster Care – Title IV–E
93.659	Adoption Assistance
93.667	Social Services Block Grant
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 \$4,087,194 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.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

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

12 findings related to the basic financial statements for the year ended June 30, 2007 were reported in accordance with *Government Auditing Standards* by the Office of the State Auditor, State of Vermont, under separate cover.

(2) B. Findings Related to the schedule of expenditures of federal awards reported in accordance with *Government Auditing Standards*

There were no findings related to the schedule of expenditures of federal awards for the year ended June 30, 2007 that were required to be reported in accordance with *Government Auditing Standards*.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

(2) Findings and Questioned Costs Relating to Federal Awards

Finding 07-01

U.S. Department of Labor

Program Name and CFDA Number

WIA Cluster:

WIA Adult Program (CFDA 17.258)
WIA Youth Activities (CFDA 17.259)
WIA Dislocated Workers (CFDA 17.260)

Federal Award Numbers and Award Years

AA-13829-04-50, Federal Fiscal Year 2004
AA-14706-05-55, Federal Fiscal Year 2005
AA-15510-06-55, Federal Fiscal Year 2006

Criteria

No participant may be in violation of section 3 of the Military Selective Service Act (50 USC App. 453) by not presenting and submitting to registration under that Act (29 USC 2939 (h)).

Condition Found

During our test work over eligibility, we noted there was no documentation to support that the Department of Labor had ensured that a male participant had registered for Selective Service before receiving WIA benefits for 1 of 50 participant benefit payments selected for test work. In addition, there was no documentation that a subsequent review had been performed to ensure the participant had registered for selective service. Based on discussions with the Department of Labor, this occurred due to the need for additional training for its case managers. The lack of documentation to support eligibility determinations could result in unallowable costs being incurred due to an incorrect eligibility determination. This appeared to be an isolated instance based on our test work.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department of Labor review its existing policies and procedures over eligibility to ensure that the Department of Labor properly documents and reviews the eligibility criteria for each participant prior to awarding federal funds to participants.

Management's Response and Corrective Action

The participant in question registered for the Selective Service on July 3, 2007. He should have registered prior to enrollment.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Eligibility training for all case managers was conducted in July and October 2007. The Selective Service registration requirement for males who were born on or after January 1, 1960 was stressed. All WIA case managers with one exception attended one of the sessions.

The requirement was addressed with WIA youth case managers once more in December 2007, and a memo will be issued to all WIA adult and dislocated worker case managers and their supervisors on or before December 31, 2007.

Scheduled Completion Date: December 31, 2007

Contact Person: David Copeland, Department of Labor, (802) 828-4348

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-02

U.S. Department of Labor

Program Name and CFDA Number

WIA Cluster:

WIA Adult Program (CFDA 17.258)
WIA Youth Activities (CFDA 17.259)
WIA Dislocated Workers (CFDA 17.260)

Federal Award Numbers and Award Years

AA-13829-04-50, Federal Fiscal Year 2004
AA-14706-05-55, Federal Fiscal Year 2005
AA-15510-06-55, Federal Fiscal Year 2006

Criteria

OMB Circular A-102 requires entities to provide reasonable assurance that reports of federal awards submitted to the federal awarding agency or pass-through entity include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with program requirements.

The ETA-9076 Financial Status Report is required to be filed no later than 45 days after the end of each reporting quarter.

Condition Found

During our test work over federal reporting, we noted that of the 50 reports tested for the quarters ending September 30, 2006 and June 30, 2007, 19 of the reports were submitted with expenditure amounts that did not agree with the actual expenditure amounts shown in the FARS and JARS databases that are used by the Department of Labor to track participant costs. In addition, we noted that all of the federal reports filed for the quarters ending September 30, 2006 and June 30, 2007 were not filed within the 45 day time period required under federal regulations. The reporting error is primarily the result of significant staff turnover during the year. While the Department of Labor has controls in place to review all reports for accuracy prior to submission, these controls do not appear to be operating effectively and does not ensure that the data contained on the federal reports is accurate and fairly presented in accordance with program requirements. This appears to be systemic in nature and is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department of Labor develop the necessary controls and procedures to ensure that the data contained in all federal reports is accurate and properly reconciled to the accounting system used to compile the federal reports and to ensure that all federal reports are filed timely.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Management's Response and Corrective Action

2006 Quarterly Report Errors

In December of 2005 we lost a very experienced WIA staffer. We transferred the WIA workload to another staff member, who filed one set of reports and then left. We filled our first vacancy with a new staffer, who got little training but actually became responsible for two positions workload; and then left within a year. The original experienced staff person returned and we filled another vacant position specifically for WIA.

For training purposes and to verify the accuracy of the numbers these two staff went back to December of 2005 and reworked all the WIA numbers. The numbers they verified did not agree with the quarterly reports filed in September of 2006. Federal reps were consulted and said that since the reports were cumulative, correction adjustments should ONLY be made in the following quarter. Bottom Line: The Department both recognized that reports for that one-year period were at risk, and invested the staff time and expertise to verify and correct the problem... before the audit.

2007 Quarterly Report Errors

The Department of Labor and Industry and the Department of Employment and Training merged to become the Department of Labor on July 1, 2005 by the Governor's Executive Order. The financial merging of the entities did not occur until July 1, 2006. During the transition year the programs belonging to the former Labor and Industry were not merged into former Employment and Training's FARS system for monthly and quarterly processing/reporting. Consequently, those programs did not pick up a share of indirect costs even though they benefited from services provided under the existing allocation plan. Eventually, in July 2007, a retroactive adjustment was made in FARS through a batch process, which both charged the former L&I programs, and refunded all other programs active during the adjustment period. That transaction batch, because of the sequencing of the process failed to affect the current expenditures, but did affect the cumulative expenditures. The staff person compiling the WIA reports failed to pick this up. This accounted for all the 2007 Quarterly report errors.

Staff turnover/inexperience/lack of training has caused a lack of continuity when compiling the complex WIA reports, even omitting the one time retroactive adjustment process described above. Management is aware of this problem and has implemented a solution. A contractor was hired to temporarily run the FARS system, to write detailed instructions in the compiling of data specific to the preparation of the quarterly WIA reports, and to train current staff in these procedures. This training has begun, the training manual is nearly complete.

It is anticipated that all Fiscal staff will be able to prepare the WIA reports when fully trained. This should remove the crippling effect of staff turnover and ensure that WIA reports are accurate and timely.

Scheduled Completion Date: Quarter ending September 30, 2007 for reporting and January 1, 2008 for training

Contact Person: Charles Teske, Department of Labor, (802) 828-0281

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-03

U.S. Agency of Transportation

Program Name and CFDA Number

Highway Planning and Construction (CFDA 20.205)

Federal Award Numbers and Award Years

0160003, Fiscal Year 2007

0194027, Fiscal Year 2007

0361001, Fiscal Year 2007

0893037, Fiscal Year 2007

0913041, Fiscal Year 2007

0269010, Fiscal Year 2007

2121001, Fiscal Year 2007

0134024, Fiscal Year 2007

2403001, Fiscal Year 2007

2407001, Fiscal Year 2007

6400025, Fiscal Year 2007

9646001, Fiscal Year 2007

CRAK025, Fiscal Year 2007

2301007, Fiscal Year 2007

CULV006, Fiscal Year 2007

Criteria

When required by the Davis-Bacon Act, the Department of Labor's (DOL) governmentwide 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 non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and related statement of compliance.

Condition Found

To assist in the compliance with the above regulations, the Vermont Agency of Transportation requires all construction contractors to submit weekly payroll reports and related statements of compliance to the Resident Engineer (RE) at the construction site. As the payroll reports and related statements of compliance are received, the RE manually enters the payroll information onto a checklist entitled "Submission of Payroll with Required Certifications." The checklist records the project name, number and the prime or subcontractor. The checklist also includes columns to enter the payroll report in chronological

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

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 of Transportation. Prior to sending the payroll reports and related statements of compliance 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 test work over Davis–Bacon compliance, we noted the following:

- A. For five out of thirteen contractors selected from dates after April 30, 2007, the payroll reports and required statement of compliance were received from the contractor after the required date of submission and one out of thirteen payroll reports and required statement of compliance were not received at all.
- B. For five out of seventeen contractors selected from dates prior to April 30, 2007, the payroll reports and required statement of compliance were received from the contractor after the required date of submission and four out of seventeen payroll reports and required statement of compliance were not received at all.

As of April 30, 2007, the Agency of Transportation implemented a corrective action plan to address the noncompliance issues noted during the prior year’s audit; however, the results of our test work for those sample items received subsequent to the date of corrective action continued to show that the Agency of Transportation was not in compliance with federal requirements.

The above instances of noncompliance do not appear to be isolated, but are systemic in nature. The Agency of Transportation has not implemented sufficient controls to ensure compliance with the timely receipt of certified payroll reports and required statement of compliance, and this is considered to be a significant deficiency.

Questioned Costs

None identified.

Recommendation

We recommend that the Agency of Transportation review its current procedures for obtaining certified weekly payroll reports and implement the necessary control policies and procedures to ensure that all required payroll reports and required statement of compliance are received and reviewed timely by the resident engineer.

Management’s Response and Corrective Action

We concur with this finding that some contractors were not compliant with Davis Bacon Act requirements by either not submitting or tardily submitting payroll reports. We recognize that this situation is an internal control weakness and requires correction. However, VTrans Civil Rights Unit is proactive in this area and works with Agency Construction Section personnel to catch Davis Bacon violations, ensuring speedy pay restitutions.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

The Construction Section will ensure that the corrective action plan developed and implemented in fiscal year 2007 will be adhered to both by Agency personnel and Agency contractors. Also, to verify that corrective actions are implemented, we will conduct an internal process review during the 2008 summer construction season.

Scheduled Completion Date: June 30, 2009

Contact Person: David Hoyne, Construction Engineer, (802) 828-2593

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-04

U.S. Department of Education

Program Name and CFDA Number

Special Education Cluster:

Special Education – Grants To States (CFDA 84.027)

Special Education – Preschool Grants (CFDA 84.173)

Federal Award Numbers and Award Years

H173A060106, (7/1/06 – 9/30/07)

H027A060098A, (7/1/06 – 9/30/07)

H027A060098, (7/1/06 – 9/30/07)

Criteria

A pass-through entity is responsible for performing during the award monitoring. This means 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.

Conditions Found

The Department of Education (the Department) performs a programmatic on-site monitoring visit to each of its subrecipients on a rotating schedule. During our test work over the subrecipient programmatic monitoring process, we noted the following:

- 8 of 11 monitoring visits selected, the Department did not date the letter that the Department sends to the subrecipient summarizing the results of the on-site monitoring visit as required by the Department's monitoring procedures. As a result, we were unable to determine whether or not the results of the on-site monitoring visit were communicated timely or at all to the subrecipient.
- 3 of 11 monitoring visits selected, the Department did not provide evidence to support that it had followed up on the results of their on-site monitoring visits to verify that the findings noted during the on-site monitoring visit had been corrected by the subrecipient as required by the Department's monitoring procedures.
- 1 of 11 monitoring visits selected, the Department could not provide the letter sent to the subrecipient summarizing the results of the on-site monitoring visit as required by the Department's procedures. As a result, we were unable to verify that the Department had communicated the results of the visit and completed the monitoring review.
- 4 of 11 monitoring visits selected, the Department could not provide a letter sent to the subrecipient concluding that they had accepted all the results of the Department's follow-up monitoring visit to ensure that the subrecipient had implemented the required corrective action plan as required by the Department's monitoring procedures. As a result, we were unable to determine whether or not the Department had followed up on the results of their on-site monitoring visit performed to ensure the subrecipient had implemented its corrective action plan.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

For Special Education Discretionary Funding granted to subrecipients, the subrecipient is required by the Department to provide a budget and a memo regarding the subrecipients intended scope of work. At year end, the subrecipient is required to send the Department a summary of the actual work performed. During our test work over the Department's procedures over Special Education Discretionary Funding we noted the following:

- 3 of 4 subrecipients selected, the Department was unable to locate the original documents received by the subrecipient which outlined the intended scope of work. As a result, we were unable to determine whether or not the work performed by the subrecipient was what was intended.
- 1 of 4 subrecipients selected, the Department indicated that a year end report summarizing the work performed by the subrecipient had been received and read by the Department, but was then destroyed. As a result, were unable to test this review.
- 3 of 4 subrecipients selected, the Department could not locate any documentation from the subrecipient that would enable them to monitor results of the work performed by the subrecipient.

In addition to the programmatic on-site monitoring visits, the Department performs audits on Special Education Expense Reports submitted annually by the subrecipients. During our test work we noted that the Department has not finalized the audits on a timely basis. Those finalized during the State Fiscal Year 2007 were from State Fiscal Year 2004.

While the Department has a defined process in place to perform during the award monitoring procedures, the Department does not have sufficient controls in place to ensure that its subrecipient monitoring procedures are consistently applied. The lack of consistently applied procedures to monitoring its subrecipients could result in the Department paying for unallowable costs. We consider this to be a material weakness in internal control.

Questioned Costs

None

Recommendation

We recommend that the Department of Education review its existing subrecipient monitoring procedures and implement controls to ensure that all subrecipients are reviewed timely, consistently and in accordance with the Department's monitoring policy.

Management's Response and Corrective Action

For Special Education Discretionary Funding the subrecipient is required to provide a budget and memo regarding their intended scope of work. At year end, the subrecipient is to send the department a summary of the actual work performed.

General Response: The Director of the SST was informed that the auditor would be looking at 3 grant awards that we drawn against the Discretionary Funds for FY '06-'07 . The particular grants that were reviewed are: 1) The VPIC award 2) The UVM award for the Surrogate Parent Program and 3) The Alltech grant award. The auditors' findings are in bullets .

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- For 3 out of the 4 subrecipients reviewed, The Department was unable to locate the original documents received which outlined the intended Scope of Services. As a result, we were unable to determine whether or not the work performed was what was intended.

Response: The SST welcomes the opportunity to get input in order to better organize and maintain a grant award system that meets an independent audit standard. We are able to produce the documentation for the proposed scope of work for the VPIC grant award. It is imperative to note that **not all** of the grant awards that the SST generates require a formal proposal from the sub grantee. Some of the work that we sub grant is required work by the Federal Department of Education. Therefore, the scope of work is often non-negotiable. In that instance the scope of work is generated internally after having a previous conversation with the intended grantee. The VT DOE grant review process adds another layer of review to the process to ensure that the scope of work reflects the work performance expectation.

Corrective Action: We will add a notation in all grant awards that will reflect how the scope of work was developed and agreed upon. The notation will inform the reviewer if a proposal for the scope of work was generated by the sub grantee or the SST generated the scope of work based on other federal or state work performance expectations for the SEA.

- For 1 out of the 4 subrecipients reviewed, the Department indicated that a year end report summarizing the work performed had been received and read and then destroyed. As a result, were unable to test this review.

Response: Not all the sub grantees are required to submit performance reports for the agreed upon scope of work. Some instances occur when the SST supports a one time conference, event or training. SST personnel often attend or participate and can confirm that the event occurred and the intended content was delivered or the intended audience came.

Corrective Action: Where reasonable and appropriate, we will ensure that a summary performance report will accompany the corresponding signed grant award document in a Master grant file that 3 people will have collective authority to maintain. The SST Director, Karin Edwards will assign specific staff and will identify the centralized location where the SST personnel will have ready access. This process will guarantee access and response regarding grant award information regardless whether a particular staff is available to answer a technical assistance question.

- For 3 out of 4 subrecipients reviewed, the Department could not locate any documentation from the subrecipient that would enable them to monitor results.

Response: We generally concur with this particular audit finding. Please note it is not unlike the previous findings, in language or intent.

Corrective Action: Where reasonable and appropriate, we will ensure that a summary performance report will accompany the corresponding signed grant award document in a Master grant file that 3 people will have collective authority to maintain. The SST Director, Karin Edwards, will assign the specific staff and will identify the centralized location where the SST personnel will have ready access. This process will guarantee access and response regarding grant award information regardless whether a particular staff is available to answer a technical assistance question.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Scheduled Completion Date: June 30, 2009

Contact Person: Michael Ferguson, Education Programs Coordinator I, (802) 828-5110

Additional Response:

Previous Practices: The current practice has been to maintain district documents pertaining to the site visits in the Department of Education (DOE) active monitoring files until the completion of the visit and the acceptance of all corrective actions by the district. Upon this acceptance, all documents with the exception of the final report were then shipped to public records for storage. The final report for the district continued to be maintained in a DOE office file.

Corrective Response: The monitoring facilitator for each visit will have the added responsibility for developing a cover letter to accompany the final report. This letter will identify the dates of the site visit, the date of the exit meeting where the results of the site visit are first discussed with the district, and the dates in which the district or supervisory union must comply with the correction of non-compliance (no less than one calendar year). A hard copy of this cover letter and all subsequent correspondence regarding corrective actions, including the close out letter accepting all corrective actions by the district, will be maintained in the DOE monitoring office file. An electronic copy of the final report, follow up documentation, DOE request/s for additional corrective action information, and the final close out letter shall be maintained in files of the Department under the Monitoring Internal Network Drive, accessible only to the Monitoring Team.

Scheduled Completion Date: June 30, 2009

Contact Person: Karin Edwards, Education Division Director, 828-5118

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-05

U.S. Department of Education

Program Name and CFDA Number

Vocational Education – Basic Grants to States (CFDA 84.048)

Federal Award Number and Award Year

V048A060045A, (7/1/06 – 9/30/07)

Criteria

A pass-through entity is responsible for performing during the award monitoring. This means 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.

Condition Found

During our test work over subrecipient monitoring for the Vocational Education program, we found that the Department of Education indicated it has various subrecipient monitoring procedures in place to ensure that the subrecipient is in compliance with programmatic requirements. These methods included desk audits and reviews of data submitted by subrecipients, technical support visits, review of reports issued by the New England Association of Schools and Colleges Inc. from the subrecipients accreditation monitoring visit, and civil rights monitoring. While the Department of Education indicated that these activities occurred, we were unable to obtain any documentation to support that the Department had performed any during the award monitoring over programmatic activities for all ten subrecipients selected for test work as the Department does not formally document its subrecipient monitoring activities. The lack of controls and procedures to document the Department's subrecipient monitoring activities over programmatic monitoring increases the risk that subrecipient monitoring procedures are not being performed and the Department of Education would be unable to detect if the subrecipients are using funds for unallowable activities. This appears to be systemic in nature and is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department of Education review its existing procedures over subrecipient monitoring and implement controls to ensure that during the award monitoring activities includes a review of programmatic requirements and that the review performed is properly documented.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Management's Response and Corrective Action

Lifelong Learning Division uses a variety of monitoring activities for our Perkins grants.

- Desk audits of recipient performance
- NEASC reviews
- Civil Rights on site monitoring
- Technical assistance visits to recipients
- Review of budget amendment requests
- EOY reports submitted by recipients
- Fiscal audits by DOE finance office

These activities will continue. In addition, we will:

- establish and maintain written documentation of the above activities
- design and establish an on-site monitoring process, including resolution of findings
- conduct on-site monitoring of each recipient on a bi-annual basis
- establish and maintain written documentation of each on site monitoring visit

Scheduled Completion Date: December 31, 2008

Contact Person: Kay Charron, Education Assistant Division Director, (802) 828-5133

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-06

U. S. Agency of Health and Human Services

Program Name and CFDA Number

Immunization Grants (CFDA 93.268)

Federal Award Number and Award Year

H23/CCH122529-05, (7/1/06 – 9/30/07)

Criteria

A pass-through entity is responsible to identifying to the subrecipient the federal award information (e.g. CFDA title and number, award name, name of federal agency, etc.) and applicable compliance requirements at the time of granting the award to the subrecipient.

A pass-through entity is required to ensure that subrecipient's expending \$500,000 or more in federal awards during the subrecipient's fiscal year for fiscal years ending after December 31, 2003 have met the audit requirements of OMB Circular A-133 and the required audits are completed within 9 months of the end of the subrecipient's audit period; issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report; and ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings.

Condition Found

The Department of Health has entered into provider agreements with health care providers whereby the health care provider will administer federally funded vaccines to participants that the provider determines is eligible for the Immunization Grants program. We consider these health care providers to be subrecipients of the program. During our test work over subrecipient monitoring, we noted that for all 20 health care provider agreements selected for test work the Department of Health did not provide the necessary award information to the health care providers. In addition, we noted that the Department of Health does not obtain or review A-133 audit reports for subrecipients for this program as the Department does not consider the health care providers true subrecipient's of the grant. While the health care providers activities are monitored annually by the Department, the Department does not obtain and inspect the A-133 reports in accordance with the requirement. This finding is considered to be systemic in nature and is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend the Department of Health review their procedures over subrecipient monitoring in order to implement the necessary controls over the subrecipient monitoring process to ensure they comply with the above stated requirements.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Management's Response and Corrective Action Plan

The Internal Audit Group (IAG), in December 2007, has contacted all of the 20 not-for-profit providers in order to ask for their independent audit documents in order to review them under the A-133 criteria. The Department of Health has recognized that if the value of the vaccines is going to be included in Vermont's schedule of expenditures of federal awards and will have to inform the non-profit recipients of the vaccines of required federal award information. Notification by letter will be made to all current non-profit subrecipient providers by April 1, 2008. All future grant agreements will contain the appropriate federal compliance information.

Scheduled Completion Date: April 1, 2008

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

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-07

U. S. Agency of Health and Human Services

Program Name and CFDA Number

Immunization Grants (CFDA 93.268)

Federal Award Number and Award Year

H23/CCH122529-05, (7/1/06 – 9/30/07)

Criteria

A record of vaccine administered shall be made in each person's permanent medical record (or in a permanent office log or file to which a legal representative shall have access upon request) (42 USC 300aa-25).

Condition Found

During our test work over provider monitoring, we noted that the Department of Health performs on-site monitoring visits for all health care providers that administer vaccines under the Immunization Grants program. During this on-site monitoring visit, a sample of patient records is reviewed to ensure that the health care provider is properly documenting the records of vaccines administered for participants that receive vaccines under this program. For 10 of 20 providers selected for test work, the Department of Health's records indicated that the health care provider did not maintain adequate information in regards to the vaccine manufacturer, production date of the vaccine, the person who administered the vaccine or the address of the clinic who administered the vaccine. We noted that corrective action was not requested by the Department of Health from the health care provider for not documenting this information as the Department did not consider it necessary to follow up on. It does not appear that the Department of Health has adequate controls in place to ensure that providers have complied with this requirement. This appears to be systemic in nature and is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department of Health reviews its existing subrecipient monitoring procedures to ensure that the Department implements the required controls and procedures to properly monitor that all providers are in compliance with the record of vaccine requirement and require corrective action from all providers that are not in compliance.

Management's Response and Corrective Action Plan

The Health Department's subrecipient monitoring checklist has been amended to provide that a lack of compliance in this regard must be addressed promptly by a corrective action plan and that the health department will follow up on implementation of that plan within two months of the identification of the finding.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Scheduled Completion Date: December 31, 2007

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

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-08

U. S. Agency of Health and Human Services

Program Name and CFDA Number

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

Federal Award Numbers and Award Years

U90/CCU116972-06, (8/31/05 – 8/30/10)

U55/CCU121972-05, (9/30/02 – 6/29/07)

U58/CCU122788-04, (6/30/03 – 6/29/08)

UR3/CCU124789-02, (7/1/05 – 6/30/08)

U59/EH000216-1, (9/1/06 – 8/31/09)

Criteria

A pass-through entity is responsible to identifying to the subrecipient the federal award information (e.g. CFDA title and number, award name, name of federal agency, etc.) and applicable compliance requirements at the time of granting the award to the subrecipient.

A pass-through entity is also responsible for 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 contract or grant agreements and that performance goals are achieved.

Condition Found

During our test work over the Department of Health's subrecipient monitoring process for the Centers for Disease Control and Prevention – Investigations and Technical Assistance program, we noted the following:

- A. For each of the 18 subrecipient grant agreements selected for test work, the Department of Health did not adequately identify the compliance requirements (i.e. allowable costs, subrecipient monitoring, etc) that were applicable to the spending of federal awards by the subrecipient.
- B. For 5 of 18 subrecipients selected for test work, the Department of Health either did not obtain program and/or financial reports from the subrecipient as required by the Department's subrecipient grant agreement or did not document that the reports submitted were reviewed to ensure that the subrecipient was properly using the federal funds based upon federal requirements and that performance goals were being achieved.
- C. For 7 of 18 subrecipients selected for test work, there was no documentation that a site visit was performed over the subrecipient during the grant period to monitor the subrecipient's activities and use of federal funds. We noted that these grants were for amounts greater than \$50,000 and the Department of Health's subrecipient monitoring policies requires that at least one site visit be performed for grants awards greater than \$50,000.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- D. For 5 of 18 subrecipients selected for test work, the Department of Health did not complete a "Subrecipient Monitoring" checklist to document the monitoring activities performed over the subrecipient as required by the Department of Health's subrecipient monitoring policy.

Based on the results of our testwork, we were unable to conclude that the Department of Health has the necessary controls and procedures in place to monitoring its grants in accordance with federal requirements and in accordance with the Department's internal monitoring policy. The lack of consistently applied controls and procedures to monitor subrecipients could result in unallowable costs being paid to the subrecipient and the Department of Health would be unable to detect it timely. This appears to be systemic in nature and is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department of Health implement the appropriate controls and procedures to ensure that all compliance requirements over spending federal funds are adequately communicated to the subrecipients at the beginning of the grant award process and that monitoring procedures are performed to ensure that the subrecipient is meeting compliance requirements and performance goals during the grant period.

Management's Response and Corrective Action

We concur that compliance requirements need to be uniformly applied to the grant agreements produced by the department. This is being done with all future grants by identifying the applicable federal regulations regarding the administration of federal awards and allowable costs in Attachment A (Scope of Work). For current year grants the compliance requirements will be communicated to the subrecipient grant manager.

Scheduled Completion Date: This will be done by April 1, 2008

With regard to logging and reviewing financial and program reports, and the need to document site monitoring visits and follow-up, the department is providing to program managers guidance and training to ensure that reports are date stamped and signed by the program manager indicating that they have been reviewed and noted for any actions taken. Standard forms are being developed to facilitate this.

Scheduled Completion Date: Training is scheduled for mid-February 2008

Universal monitoring checklists are being developed. The department monitoring protocol is being revised so it is consistent with the agency's protocols. Training and Orientation is being provided to all grant managers so that adequate documentation is provided for each monitoring activity, be it on site or a bench review.

Scheduled Completion Date: Implementation beginning February 1, 2008

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

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-09

U. S. Agency of Health and Human Services

Program Name and CFDA Number

Child Support Enforcement (CFDA 93.563)

Federal Award Numbers and Award Years

07-04VT4004, (10/1/06 – 9/30/07)

06-04VT4004, (10/1/05 – 9/30/06)

Criteria

The IV-D agency must attempt to establish paternity and a support obligation for children born out of wedlock. The agency must establish a support obligation when paternity is not an issue. These services must be provided for any child in cases referred to the IV-D agency or to individuals applying for services under 45 CFR section 302.33 or 45 CFR section 309.65(a)(2) for whom paternity or a support obligation had not been established (45 CFR sections 303.4 and 303.5, 45 CFR sections 309.100 and 309.105). For State IV-D agencies, these services must be provided within the time frames specified in 45 CFR sections 303.3(b)(3) and (b)(5), 303.3(c) and, 303.4(d).

Section 303.4(d) states “Within 90 calendar days of locating the alleged father or the noncustodial parent, regardless of whether paternity has been established, establish an order for support or complete service of process necessary to commence proceedings to establish a support order, and if necessary, paternity (or document unsuccessful attempts to serve process in accordance with the State’s guidelines defining diligent efforts under 303.3(c)).

Under the regulations of 45 CFR 303.3(c) Location of Noncustodial Parents, the State must establish guidelines defining diligent efforts to serve process. These guidelines are an integral part of many of the sections of the compliance requirements which the IV-D agency must meet. Diligent efforts are referred to in Sections 303.4 Establishment of Support Obligations and 303.6 Enforcement of Support Obligations.

Condition Found

During our test work over the Office of Child Support’s compliance with federal requirements over the establishment of paternity and support obligations, we noted that for 6 of 30 cases selected for test work that the 90 day threshold to establish an order for support or complete the service of process necessary to commence proceedings to establish a support order was not met. The lack of compliance is due to significant staffing constraints and the lack of control over how the District Court system completes the service of process for each case.

In addition, per review of the Child Support State Plan, we were unable to locate a definition of diligent efforts or what types of activities can be performed to satisfy the diligent effort requirement as required by federal regulations.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

The above finding appears to be systemic in nature. The Office of Child Support does not appear to have implemented controls to ensure compliance with federal requirements and this is considered to be a material weakness.

Questioned Costs

None identified.

Recommendation

We recommend that the Office of Child Support review its existing control procedures to ensure that procedures and controls are implemented to ensure that the Office of Child Support complies with the time requirements outlined in the federal regulations concerning the establishment of support obligations. We further recommend that the Office of Child Support review its State Plan and revise the State Plan to include a definition of what diligent efforts is and the types of activities that are performed to meet the diligent efforts requirement.

Management's Response and Corrective Action

OCS has prepared a corrective plan surrounding the circumstances of 6 cases.

1. 4 cases revealed activity timelines were not met due to various factors such as:
 - a. OCS missed time line due to: 1. Caseworker retirement and 2. With high caseloads (approximately 700 each), maintaining caseloads and/or covering for vacancies over extended caseworkers.
 - b. Court missed timelines for Service of Process.
1. OCS will add C (below) to the Court's Cooperative Agreement. There were no timeframes for service of process in the past Court Agreement. This clearly states expectations (see below).
 - c. *Service of Process*

The Court adopts the standard of performance to initiate service of process on IV-D cases within 7 business days of the date of filing by certified mail or delivery to the sheriff for personal service.

Scheduled Completion Date: June 2008

2. OCS strengthens controls to monitor timelessness for service of process.

Presently, workers are inundated with ACCESS "To Do" lists, sifting through them in order to find those where service of process timelines are an issue, is difficult. OCS has created a worker/supervisor report from our data warehouse, which will list the cases in the service of process status. This report will be monitored by workers and their supervisors and is available as of December 19, 2007.

Scheduled Completion Date: Completed December 19, 2007

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

3. Lastly, Office of Child Support is reviewing its State Plan and is in the process of revising the State Plan to include a definition of what diligent efforts is and the types of activities that are performed to meet the diligent efforts requirement.

Scheduled Completion Date: July 1, 2008

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

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-10

U. S. Agency of Health and Human Services

Program Name and CFDA Number

Child Support Enforcement (CFDA 93.563)

Federal Award Numbers and Award Years

07-04VT4004, (10/1/06 – 9/30/07)

06-04VT4004, (10/1/06 – 9/30/07)

Criteria

- 1 Within 10 working days of receipt of an interstate IV-D case from an initiating State, the Central Registry must (45 CFR 303.7(a)(2)):
 - Ensure that the documentation submitted with the case has been reviewed to determine completeness;
 - Forward the case for necessary action either to the State PLS for location services or to the appropriate agency for processing;
 - Acknowledge receipt of the case and ensure that any missing documentation has been requested from the initiating State; and
 - Inform the IV-D agency in the initiating State where the case was sent for action.
- 2 Except as provided under the long arm statute, within 20 calendar days of determining that the noncustodial parent is in another state, and if appropriate, receipt of any necessary information needed to process the case, the State is required to refer the case to the appropriate out of state interstate registry for action.

Condition Found

During our test work over interstate cases, we noted that for 3 of 16 cases selected for test work in which the State of Vermont was responding to a request from another State, the Office of Child Support did not acknowledge the receipt of the case within the 10 working day requirement, or the acknowledgement letter could not be found. In 1 of 3 cases the Out of State Agency confirmed that an acknowledgement letter was received however, it was not possible to determine compliance with the time requirement based on the information available. As a result, the Office of Child Support is not in compliance with federal requirements.

For the 24 cases selected in which the State of Vermont was the initiating state, we noted 1 of 24 cases was not referred to an Out of State Agency within the required 20 calendar day requirement because the caseworker was on medical leave. As a result, the Office of Child Support is not in compliance with federal requirements.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

We are unable to conclude that the Office of Child Support has the necessary controls in place to ensure compliance with the requirements for interstate cases. The above deficiencies appear to be systemic in nature and are considered to be material weakness.

Questioned Costs

None identified.

Recommendation

We recommend that the Office of Child Support review its existing procedures and implement the necessary controls to ensure compliance with all time requirements established in the federal regulations surrounding interstate cases.

Management's Response and Corrective Action

The audit found that the central registry is reviewing all new responding interstate cases received from an initiating state and forwarding the cases for locate services or to a regional office for action within the required 10 working day timeframe. The material weakness finding stems from the central registry failing to acknowledge receipt or failing to maintain proper documentation that it acknowledged receipt of the case in 3 of the 16 responding cases that were reviewed during the audit.

1. Training: Three out of the four central registry staff are new since the last single state audit. In reviewing the audit exception cases with the central registry supervisor it became apparent that a gap existed in the training program for these newer staff in acknowledging new responding cases and maintaining proper documentation of the acknowledgment. The central registry supervisor has provided the staff with additional training in these areas.

Scheduled Completion Date: November 2007

2. Document Retention: In terms of not being able to locate documents during the audit, the interstate acknowledgement forms (722U and 715U) are now automatically stored in the case file's document imaging system. This is an automated process now.

Scheduled Completion Date: November 2007

3. Staff Monitoring: The central registry supervisor has initiated weekly meetings with the central registry staff to review and discuss incoming responding interstate cases.

Scheduled Completion Date: November 2007

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

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-11

U. S. Agency of Health and Human Services

Program Name and CFDA Number

Child Support Enforcement (CFDA 93.563)

Federal Award Numbers and Award Years

07-04VT4004, (10/1/06 – 9/30/07)

06-04VT4004, (10/1/06 – 9/30/07)

Criteria

For all cases referred to the IV-D agency or applying for services under 45 CFR section 302.33 or 45 CFR section 309.65(a)(2) in which an obligation to support and the amount of the obligation has been established, the agency must maintain a system for (b) identifying on the date the parent fails to make payments in an amount equal to support payable for one month, or an earlier date in accordance with State or tribal law, those cases in which there is a failure to comply with the support obligation.

Condition Found

During out test work over child support enforcement activities, we noted that the Office of Child Support utilizes a delinquency date to determine compliance which is not in accordance with federal regulations. The delinquency date is calculated each night and is used as a means to distribute enforcement cases to caseworkers, but this calculation is not stored by the computer system, ACCESS. The Office of Child Support has placed a filter on the system to limit the number of enforcement cases distributed each night due to significant staffing constraints. The date utilized for each case that enters enforcement status is the date the case is distributed to the caseworker and not the actual date the case went into delinquency status as required by federal regulations. As we were unable to verify the date that the case entered delinquency status, we were unable to test this requirement. As there are no controls in place to ensure that enforcement activities are completed within the time period specified by federal regulations, this is considered to be a material weakness.

Questioned Costs

None identified.

Recommendation

We recommend that the Office of Child Support develop controls and procedures to properly establish the delinquency date in accordance with federal regulations. Once this date is established, the Office of Child Support should review its current procedures for initiating due diligence procedures over delinquency accounts and implement controls to ensure the required activities are performed as required by the above stated federal regulation.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Management's Response and Corrective Action

As part of our case management strategy a fixed number of cases were referred to staff for enforcement although the referred cases rarely exceeded the filter maximum, OCS eliminated the filter during the audit. This filter is now removed and the date the case is referred to the caseworker, is the actual date the case was found delinquent by the system.

Scheduled Completion Date: October 18, 2007

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

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-12

U. S. Agency of Health and Human Services

Program Name and CFDA Number

Low Income Home Energy Assistance Program (CFDA 93.568)

Federal Award Numbers and Award Years

07BIVTLIEA, (10/1/06-9/30/07)

06BIVTLIEA (10/1/05-9/30/06)

Criteria

Benefits must be calculated in accordance with guidance provided. Costs charged to a program 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.

Condition Found

During our test work over eligibility and the calculation of fuel benefits paid, we noted that the Fuel Office of the Department of Children and Families improperly calculated the amount of benefits to be paid for 2 of 40 participants selected for test work. For these cases, we noted the information provided in the application did not agree to the information used to calculate the benefits paid. The error is primarily due to the need for updated training and current staffing constraints. The lack of procedures in place to ensure benefit calculations are correct could result in unallowable costs being charged to the federal grant.

Questioned Costs

\$128 – the excess benefits paid identified above

Recommendation

We recommend the Fuel Office of the Department of Children and Families review the applications and implement procedures to ensure that the appropriate information is used when calculating benefit amounts.

Management's Response and Corrective Action

Management concurs with the finding. Management will review all of its procedures for determining benefit levels to ensure that benefit levels are calculated properly. Additional training will be provided to workers, when appropriate, to ensure that they have the proper knowledge level to perform their work. While some level of QC work is done internally, the Fuel Office will consider other QC activities to augment those already in place.

Scheduled Completion Date: Retraining was completed on February 26, 2008 and additional training will be provided as needed.

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

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-13

U. S. Agency of Health and Human Services

Program Name and CFDA Number

Medical Assistance Program (CFDA 93.778)

Federal Award Numbers and Award Years

11-W-00194/1, (10/1/06 – 9/30/10)

75X0512, (7/1/06 – 6/30/07)

Criteria

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 costs reports are used to establish payment rates. The State Medicaid Agency must provide for periodic audits of financial and statistical records of participating providers (42 CFR Section 447.253).

Condition Found

During our test work over inpatient hospital rates established under the long-term care Section 1115 demonstration waiver, we noted that the State Medicaid Agency, the Office of Vermont Health Access (OVHA), does not require the filing of uniform costs reports from each participating provider to establish payment rates for inpatient hospital services. In addition, OVHA does not perform periodic audits of financial and statistical records of participating providers. Instead, the rates established are based on a rate that was established in 1991 and is adjusted annually by the State legislature as stated in the Medicaid State Plan. However, there is no further review as required to ensure that the rates are reasonable and adequate. The cause of this is primarily the result of staffing constraints and a lack of training as to what the federal requirement is. The lack of a review process as required could result in unreasonable costs being charged to the program.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that OVHA review the compliance requirements and implement the necessary procedures and controls to ensure that providers provide uniform cost reports that are used to establish payment rates and that periodic audits of financial and statistical records are performed over participating providers.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Management's Response and Corrective Action

42 CFR Section 447.253 states requirements for the gathering of information and criteria inpatient rates must meet. The basis on which the rates are set is not specified in this section, however, only that "The Medicaid agency must pay for inpatient hospital and long term care services using rates determined in accordance with methods and standards specified in an approved state plan." The approved state plan is amended annually to reflect the actions of the Vermont General Assembly with regard to the funding of hospital services. It is the Office of Management and Budget (OMB) that has linked the obtaining of cost information with the setting of rates in the A-133 audit supplement. It is our conclusion that this requirement and the subsequent finding reflect the opinion of the OMB, not the requirements of the legislation. We request clarification from CMS on this issue.

Scheduled Completion Date: When CMS provides guidance in writing

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

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-14

U. S. Agency of Health and Human Services

Program Name and CFDA Number

Medical Assistance Program (CFDA 93.778)

Federal Award Numbers and Award Years

11-W-00194/1, (10/1/05 – 9/30/10)

75X0512, (7/1/06 – 6/30/07)

Criteria

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.

Conditions Found

42 CFR 456.3 and 42 CFR 456.22 requires that the State of Vermont conduct a program of utilization, peer review and analysis that safeguards against unnecessary or inappropriate use of Medicaid services and assesses the quality of services provided to Medicaid participants. Under federal regulations, pre-procedural, pre-admission, retrospective and concurrent reviews are required to be performed. The Office of Vermont Health Access (OVHA) has a Program Integrity Unit that is responsible for coordinating this effort. During our test work over this requirement, we noted the following:

- A. OVHA conducts pre-procedural reviews for a variety of services provided to Medicaid beneficiaries. During our test work, we were unable to identify any controls in place to ensure and monitor that all services requiring a pre-procedural review had a review completed.
- B. OVHA conducts pre-admission reviews for elective hospital admissions and psychiatric and substance abuse admissions to out-of-state hospitals and facilities designated as border hospitals. During our test work, we found that OVHA does not maintain any documentation to support that any pre-admission reviews were performed and as a result, we were unable to test this requirement.
- C. OVHA conducts retrospective reviews on a number of benefits to validate claims data, assure appropriateness of services, assure that care management is appropriate for the beneficiary's medical condition and assure that all days of hospital stay or office-based services were appropriate. During our test work, we found that OVHA does not maintain any documentation to support that any retrospective reviews were performed and as a result, we were unable to test this requirement.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- D. OVHA conducts concurrent reviews of hospital stays. During our test work, we found that OVHA does not maintain any documentation to support that concurrent reviews are performed and as a result, we were unable to test this requirement.
- E. OVHA does not have a defined process and procedure manual in place that outlines how the Program Integrity Unit should properly investigate and analyze a case, how the case should be documented, or how findings could be extrapolated and applied to other cases to help in the assistance of identifying potential fraud within the program.
- F. One tool utilized by OVHA in review of the utilization of services rendered is a Recipient Explanation of Medicaid Benefits, or REOMB form. This form is sent to Medicaid beneficiaries on a monthly basis by Electronic Data Services, OVHA's fiscal intermediary, requesting that the beneficiary indicate whether the detailed services on the form were not received. If the information on the form is correct, a response is not requested. OVHA receives a small number of responses to these requests and currently does not track the responses it receives from its mailing. In September 2005, OVHA noted that the REOMB form contained incorrect information and requested that a system software change be made to prevent future errors. As of November 2007, this system change has not been completed.

42 CFR 455.1 requires the State of Vermont to establish methods for identifying, investigation, and referring suspected fraud cases. OVHA's Performance Integrity Unit is responsible for developing procedures for identifying, investigating and referring suspected fraud cases to other entities such as the Medicaid Fraud Control Unit and the Agency of Health and Human Services Quality Control Unit. During our test work over this requirement, we noted that while there were potential areas of abuse identified by the Performance Integrity Unit, it is unclear which unit within the Agency of Health and Human Services has the authority over the case. As a result, a fraud case may not be developed against the provider or recipient and there is a risk that procedures and policies will not be implemented to prevent future abuses from occurring.

Based on results of our procedure performed, OVHA does not appear to be in compliance with the above stated requirements. In addition, there do not appear to be sufficient controls in place over utilization reviews to ensure that the reviews are complete and properly documented due to a significant understaffing of the Performance Integrity Unit. The lack of procedures and control activities to properly document the results of utilization reviews and properly investigate all suspected instances of fraud could lead to unnecessary utilization of services and the State of Vermont would not have any mechanisms to identify the abuse timely. This finding is considered to be a material weakness in internal controls.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Office of Vermont Health Access develop policies, procedures and controls 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 Office of Vermont Health Access take the necessary steps to make sure that all

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

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

OVHA has been developing its ability to perform the program integrity function. See the response in item 9 of finding 07-15 concerning Section 2.13 of the Intergovernmental Agreement between the Agency and the Managed Care Organization, OVHA.

In September 2005, the Agency noted that REOMB contained incorrect information and requested a system software change to prevent future errors. The system change was completed in April 2007. EDS mails these REOMBs out quarterly. 50% are randomly selected and the other 50% are chosen based on targeted selection. OVHA does not have a system to specifically quantify these returns; however, every returned REOMB results in one of two actions: if the beneficiary is only correcting demographic information (address, name spelling, etc), the response goes to DCF for correction, if the beneficiary indicates that the service was not received, an investigation is started. While we don't quantify the actual number of responses we get to REOMBs, every response is acted on.

Scheduled Completion Date: Various – See management's response at 07-15

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

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-15

U. S. Agency of Health and Human Services

Program Name and CFDA Number

Medical Assistance Program (CFDA 93.778)

Federal Award Numbers and Award Years

11-W-00194/1, (10/1/05 – 9/30/10)

75X0512, (7/1/06 – 6/30/07)

Criteria

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 Department within 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 as required by the Waiver terms and conditions. The intergovernmental agreement provided in detail the requirements that both OVHA and the Agency would comply with.

Conditions Found

Per review of the Waiver terms and conditions, AHS is responsible for oversight of OVHA, ensuring compliance with state and federal statutes, regulations, special terms and conditions, waiver and costs. During our test work over OVHA's compliance with the intergovernmental agreement, we noted the following:

1. Section 2.24 of the intergovernmental agreement, 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 employees a full time staff position whose responsibility it is to reconcile differences between the two systems. OVHA indicated it used various reports and implemented procedures to monitor and adjust eligibility lists. We were unable to obtain any of these reports to verify that these procedures were in place as of June 30, 2007.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

2. Section 2.4.4 of the intergovernmental agreement, 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.

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. No evidence was provided to us that 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.

3. 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.

During our test work over provider profiling, we noted that the provider profiling activities were not being performed.

4. 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 stakeholders.

During our test work over utilization management plan, we noted that OVHA does not have a comprehensive Utilization Management Plan in place and does not adequately document its reviews conducted to support any reviews were performed.

5. 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 test work over enrollee records, we noted that other Agency Departments during their review process select a sample of enrollee records to ensure the completeness and reasonableness of the services being performed. As noted above, these reviews typically include Designated Agencies used for Mental Health and Developmental Services. However, no evidence was provided to us to show that reviews of enrollee records were performed over other physicians, such as primary health care providers.

6. Section 2.12.1, Encounter Data, requires OVHA to maintain claims history data for the Waiver enrollees through contractual arrangements with its Fiscal Agent. Subcontracted Departments shall submit encounter reports for services rendered to Waiver enrollees, when service-specific claims for such services are not processed through MMIS.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

During our test work over encounter data, OVHA was unable to provide copies of encounter reports and we were unable to test this requirement.

7. Section 2.12.1.1, Data Validation, states that encounter data submitted to OVHA and its subcontracted Departments will be edited by OVHA and subcontracted Departments for accuracy, timelines, correctness and completeness.

As noted above in finding number 6 above, we found no evidence that encounter data was being provided or edited by OVHA or its subcontracted Departments. In addition, biennially, the Agency or its designee is required to perform medical record reviews for the purposes of comparing submitted claims and encounter data to the medical record to assess correctness, completeness and to review for omissions in encounters or claims. There was no evidence to support that a biennial review had not been performed.

8. Section 2.12.3, Network Reporting, states that the Agency shall provide report formats and variable definitions for OVHA to use in providing network capacity data to demonstrate that it offers an appropriate range of covered services adequate for the anticipated number of enrollees for service area; and that it maintains a network of providers that is sufficient in number, mix and geographic distribution to meet the needs of the anticipated number of enrollees in the service area. Network capacity documentation shall be submitted annually within 45 days of the end of the reporting period.

During our test work over network reporting, we noted no network capacity documentation has been submitted by OVHA.

9. 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.

During our test work over fraud and abuse, we noted that there were no written procedures for fraud and abuse prevention and detection.

10. Section 3.3, Performance Evaluation, requires the Agency to annually, or more frequently, to define measurable performance standards for OVHA and its subcontractors, monitor and evaluate OVHA's compliance with the terms of the intergovernmental agreement, meet with OVHA a minimum of twice a year to assess the performance of the Quality Assurance Program, review reports submitted by OVHA, perform periodic programmatic and financial reviews over OVHA's performance responsibilities, provide OVHA and/or its subcontracted Departments prior notice of any on-site visit by the Agency or its agents to conduct an audit, inform OVHA and/or its subcontracted Departments the results of any performance evaluations conducted by the Agency or its agents, develop corrective action plants to address any areas of noncompliance or poor performance identified as part of the Agency's evaluation process, 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.

The Agency has not performed any reviews over the performance of OVHA, with the exception of quarterly reviews and discussions of OVHA's work plan that were performed in conjunction of the

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

quarterly reporting that was required between the Agency and CMS. We also noted an External Quality Review Organization was contracted with by OVHA and not the Agency.

11. 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. The Agency is responsible for ensuring the total capitation payments are within the permissible range of payments as established by an independent, actuarial certification process.

During our test work over capitation payments, 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 and is not in accordance with the payment provisions established by the MCO agreement.

12. Section 4.3, Restrictions on Use of Excess Funds, states that any revenue from capitation payments made to OVHA in excess of claims paid on behalf of Medicaid eligible recipients must be used for the following categories: (1) reduce the rate of uninsured and, or underinsured in Vermont; (2) increase the access of quality health care to uninsured, underinsured and Medicaid beneficiaries, (3) provide public health approaches to improve the health outcomes and the quality of life for the uninsured, underinsured and Medicaid beneficiaries; and (4) encourage the formation and maintenance of public-private partnerships in health care. These payments are referred to as MCO Investments.

During our test work over the allowability of MCO Investment payments, we selected MCO Investment payments of \$38,070,945 out of a total of \$46,539,473 MCO investment payments made during the year ended June 30, 2007 and noted the following:

- A. MCO Investments totaling \$914,629 were used to fund the Health Care Authority program administered by the Department of Banking, Insurance, Securities and Health Care Administration (BISCHA). The funds paid under this program were to have met MCO Investment categories of 1, 2 and 4, as defined above. We noted the costs of services provided under this program were allocated to MCO Investments using a rate of 34%. We were unable to obtain evidence from BISCHA to support that the services provided met the definition of MCO Investments categories of 1, 2 and 4. In addition, we were unable to obtain evidence to support the reasonableness of the 34% allocation rate.
- B. MCO Investments totaling \$913,047 were paid to the Vermont Veterans Home, which is a skilled nursing facility that serves veterans, spouses, and Gold Star parents (parents of soldiers killed in action). The funds paid were to have met MCO Investment category 2, as defined above. We were unable to obtain any evidence to support what types of costs were incurred by the Vermont Veterans Home or who received services under the MCO Investment payments.
- C. MCO Investments totaling \$3,870,682 were paid to the University of Vermont to provide services under the Vermont Physician Training program. The funds paid under this program were to have met MCO Investment category 2, as defined above. The University of Vermont

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

indicated that the funds had been used to support the University's College of Medicine's educational programs, however, the University did not maintain any detailed accounting records, effort reports or other documentation to support how the funds were spent. Accordingly, we were unable to determine how the University of Vermont had spent the funds in accordance with the waiver agreement.

- D. MCO Investments totaling \$1,908,982 were used to fund the Health Laboratory program administered by the Department of Health. Under this program, funding is used to evaluate toxic agents in the environment to determine their health impact and supports the Environmental Chemistry Program, the Microbiology Program and the Toxicology Laboratory that are used to study toxic and microbial agents. The services under this program were to have met MCO Investment category 3, as defined above. Costs incurred under this program were allocated using a rate of 56.3%, which represented the percentage of Vermonters that reside in Vermont with household incomes below 300% of the federal poverty level, determined in the year 2000. We noted that the allocation rate used was 7 years old and no documentation was provided by the Department to support the reasonableness of the allocation rate for the current year.
- E. MCO Investments totaling \$1,647,129 were used to fund the Tobacco Cessation program administered by the Department of Health. This program is used to establish a comprehensive tobacco control program based on the Centers for Disease Control and Prevention recommendations as well as input from Vermonters. The funds paid under this program were to have met MCO Investment category 3 as defined above. Services incurred under this program were allocated using a rate of 56.3%, which represented the percentage of Vermonters that reside in Vermont with household incomes below 300% of the federal poverty level that was determined in the year 2000. We noted that the allocation rate used was 7 years old and no documentation was provided by the Department to support the reasonableness of the allocation rate for the current year.
- F. MCO Investments totaling \$439,140 were paid to the University of Vermont for a physician/dentist loan repayment program through a grant entered into with the University and the Department of Health. The funds paid under this program were to have met MCO Investment categories 2 and 3, as defined above. There was no evidence to support that the Department of Health had performed any monitoring activities to support that the recipients who received funding by the University of Vermont had met the eligibility requirements included in the grant agreement, which included a requirement that the recipient practice in Vermont. In addition, costs incurred under this program were allocated using a rate of 56.3%, which represented the percentage of Vermonters that reside in Vermont with household incomes below 300% of the federal poverty level that was determined in the year 2000. The allocation rate used was 7 years old and no documentation was provided by the Department to support the reasonableness of the allocation rate for the current year.
- G. MCO Investments totaling \$1,165,699 were used to fund costs paid in excess of what was reimbursed under the Special Supplemental Program for Women, Infants, and Children (WIC) administered by the Department of Health. Funds paid under this program were to have met

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

MCO Investment categories 2 and 3, as defined above. The Department was unable to provide sufficient evidence to support that the payments met the definition of MCO Investment categories 2 and 3.

- H. MCO Investments totaling \$2,514,963 were used to fund the Substance Abuse Treatment program administered by the Department of Health. Funds paid under this program were to have met MCO Investment category 2, as defined above. The services provided under this program represent the excess cost incurred under this program that was not reimbursed by the Block Grant for the Prevention and Treatment of Substance Abuse or the State of Vermont's Maintenance of Effort requirement for this federal program. In addition, only 56.3% of the remaining cost was allocated to the program, which represented the percentage of Vermonters that reside in Vermont with household incomes below 300% of the federal poverty level that was determined in the year 2000. We noted that the allocation rate used was 7 years old and no documentation was provided by the Department to support the reasonableness of the allocation rate for the current year. In addition, we were unable to obtain evidence to support that the costs incurred met the definition of MCO Investment category 2.
- I. MCO Investments totaling \$1,975,940 were used to fund the Vermont Blueprint for Health Program administered by the Department of Health. This program is a statewide initiative to improve the coordination of care and service delivery for individuals with chronic conditions. Funds paid under this program were to have met MCO Investment categories 2 and 4, as defined above. Services incurred under this program were allocated to the program using a rate of 56.3%, which represented the percentage of Vermonters that reside in Vermont with household incomes below 300% of the federal poverty level that was determined in the year 2000. We noted that the allocation rate used was 7 years old and no documentation was provided by the Department to support the reasonableness of the allocation rate for the current year. In addition, we were unable to obtain evidence to support that the costs incurred met the definition of MCO Investment categories 2 and 4.
- J. MCO Investments totaling \$10,536,996 were used to fund payments made for residential care for youth and substitute care payments by the Department of Children and Families. Funds paid under this program were to have met MCO Investment category 2, as defined above. Costs charged under this program were for services not covered by Medicaid or Foster Care such as room and board charges. As a result, these costs do not appear to be health care related and, accordingly, do not meet the definition of MCO Investment category 2.
- K. MCO Investments totaling \$2,617,350 were used to fund payments made for Aid to the Aged, Blind and Disabled CCL III program, administered by the Department of Children and Families. Funds paid under this program were to have met MCO Investment categories 2 and 3, as defined above. The costs incurred under this program represented Social Supplemental Income (SSI) benefits to eligible SSI participants during the period of time in which the individual's application for benefits is pending or when the benefits have been suspended or terminated. These costs do not appear to be health care related and, accordingly, do not meet the definition of MCO Investment categories 2 or 3.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- L. MCO Investments totaling \$1,988,548 were used to fund payments made under the Emergency Mental Health for Children and Adults program administered by the Department of Mental Health. Funds paid under this program were to have met MCO Investment categories 2 and 3, as defined above. Services under this program related to costs paid to designated agencies (third party service providers) for 24/7 triage/assessment services, mobile outreach, short-term family stabilization and referral and screening for hospitalization for children, youth, families and adults experiencing a mental health crisis. We were unable to obtain documentation as to how the designated agencies spent the funds, who received services under the program or to support that the services met the definition of MCO Investment categories 2 and 3.
- M. MCO Investments totaling \$1,393,395 were used to fund payments made under the MH Outpatient Services for Adults program administered by the Department of Mental Health. Funds paid under this program were to have met MCO Investment category 2, as defined above. Services under this program included mental health assessment, individual and group counseling, case management, medication management, care coordination and outreach supports for adults who have a wide range of problems that are life disrupting and sometimes temporarily disabling. We were unable to obtain evidence as to how the designated agencies spent the funds, who received services under the program or to support that the services met the definition of MCO Investment category 2.
- N. MCO Investments totaling \$3,066,774 were used to fund payments made under the Emergency Mental Health for Children's Community Services administered by the Department of Mental Health. Funds paid under this program were to have met MCO Investment category 2, as defined above. Services under this program related to costs paid to designated agencies (third party service providers) for assessment and treatment, medication management, case management, community support, transportation and housing supports for children who have a severe and persistent mental illness. We were unable to obtain evidence as to how the designated agencies spent the funds, who received services under the program or to support that the amounts paid met the definition of MCO Investment category 2.
- O. MCO Investments totaling \$1,135,213 were used to fund payments made under the Flexible Family/Respite Funding program administered by the Department of Aging and Independent Living. Funds paid under this program were to have met MCO Investment category 2, as defined above. Services incurred under this program related to funds to support developmentally disabled persons who live with their families. Funds can be used for a range of services such as respite care, individual and household items (clothing, heat, rent) and recreational services. These costs do not appear to be health care related and, accordingly, do not meet the definition of MCO Investment category 2.
- P. MCO Investments totaling \$1,982,458 were used to fund payments made under the Community Rehabilitative Care Program administered by the Department of Corrections. Funds incurred under this program were to have met MCO Investment category 2, as defined above. The services under this program represented salary costs of Probation and Parole Officers that provided case management services and construct and implement case plans to address

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

criminogenic behaviors. Costs were allocated using a rate of 38%, which is an estimate made by the Department of Corrections as to the percentage of Vermont residents who are uninsured, underinsured or Medicaid eligible and then by an additional rate of 62.5%, which is the estimated amount of time that Probation and Parole Officers spend providing these services. We were unable to obtain documentation to support that the case management services provided by the Probation and Parole Officers met the definition of a health care service, nor we were able to obtain evidence to support that the service rendered met the definition of MCO Investment category 2. In addition, we were unable to obtain evidence to support the reasonableness of the allocation rates used by the Department of Corrections to allocate the payroll cost to this program.

Based on the information above, it does not appear that AHS has monitored compliance with the intergovernmental agreement with OVHA. There does not appear to be controls or procedures in place that would allow AHS to effectively monitor OVHA. The above deficiencies appear to be systemic and impact the integrity and operation of the Medicaid program. This finding is considered to be a material weakness.

Questioned Costs

\$38,070,945 – the total amount of costs identified in bullet 12 above.

Recommendation

We recommend that the Agency 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

1. This reconciliation is done by Sile Voyeur. These reconciliations have been performed continuously for several years. Weekly and monthly reconciliation reports are generated.
2. The claims edit process of the MMIS always checks to see that the provider claim is for services that provider is licensed to provide.
3. It is true that these provider profiling activities were not completed during the audit period. OVHA now receives quarterly provider profile reports. OVHA randomly selects transactions from these reports for further audit by the Program Integrity Unit. The Agency is assessing whether the monthly reporting requirement of the IGA should be retained or if quarterly reporting is satisfactory for the provider profiling activity.
4. Improvements on this system are underway, but this finding was accurate at the time of the review. An RFP is out to find a contractor to work on this and other issues.
5. These reviews are not a requirement of the federal Medicaid program. The Intergovernmental Agreement is being amended to conform its requirements to the federal requirements.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

6. Vermont currently defines encounter as a claim, standards for claims submission and accuracy can be found on the EDS website. Encounter data failing edits can be rejected, denied, or suspended. EDS will track provider data submission and work with the provider to improve data for accuracy, timeliness, correctness, and/or completeness. Relative to biennial review, the AHS is in the process of revising the IGA to remove this expectation and clarify the linkages between OVHA and its IGA partners.
7. Encounter data is received before a payment is made. All encounter data goes through an EDS process of edits and audits before a payment is made. These are reviewed every time an audit is performed.
8. A schedule for the implementation of a GIS mapping system is underway. The timeline includes: 12/07-Psychiatric, 1/08-Primary Care, 2/08-Surgical, 3/08-Nursing, 4/08-Pharmacy and DEM suppliers, 5/08-Personal Care Services, Physical Therapy, Occupational Therapy, Speech Therapy, 6/08-all others.
9. In 2007 OVHA integrated its Surveillance Utilization Review (SURS) efforts by establishing its Program Integrity Unit. OVHA made the unit effective by:
 - Hiring a director with over 20 years of health care experience, grounded in data analysis and ability to build prospective data analysis protocol along with excellent communication skills both internal and external
 - Staffed the unit with two investigative staff, two clinical staff, and two auditing staff (to be provided by the Agency of Human Services (AHS)) Augmented the SURS/PI processes in MMIS and FADS
 - The data team has been assigned to provide data support.
 - A new operational process was implemented internally using the Medicaid Management Information System (MMIS) and a newly acquired functionality, the Fraud and Abuse Detections System (FADS), designed to identify and review trends in many different areas.
 - The OVHA PI team meets every two months to review audit and recovery issues with: Coordination of Benefits Unit; and the staff of our Pharmacy Benefits Administrator (PBA), MedMetrics Health Partners.
 - The Program Integrity Unit meets monthly with the Medicaid Fraud Residential Abuse Unit (MFRAU), the Office of Inspector General (OIG), Department of Justice (DOJ) and the US District Attorney's Office to discuss potential cases, updates on pending cases, discuss data and review any policies or other related questions.
10. The agency is engaged in variety of forums with OVHA to develop, review and improve compliance with activities and requirements outlined in the IGA and the CFR. In SFY07 these included, but were not limited to:

Monthly Financial monitoring meetings with OVHA and each IGA partner whereby the AHS-CFO and the AHS – Director of Health Care Operation reviewed fiscal status of the global commitment obligations and identify any operational issues that need attention or monitoring including program or caseload changes that may impact utilization.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

The AHS- Quality Improvement Director meets at least monthly with the OVHA and IGA partners Quality directors and staff to review, create and approval overall AHS & MCO quality strategies and monitoring activities

The Director of managed care finances meets regularly with OVHA and CFO's from each IGA partners to review fiscal policy and reporting and other requirements.

The AHS- Director of Health Care Operations held monthly meetings January – October with OVHA staff, IGA partners deputies and senior division leaders to review issues related to MCO compliance and proposals from various departments for administrative or programmatic changes in GC services.

The AHS Director of Operations, The AHS-CFO and the MCO Director meet every two weeks with the Secretary and Deputy Secretary, as needed, to review any fiscal policy or program issues that may threatened or enhance the integrity of the GC waiver program.

Additionally, two 2 joint AHS/MCO meetings have been held with key OVHA and AHS – CO Directors to review operational issues and prioritize work products under GC.

The External Quality Review Organization contract was moved to the Agency effective January, 2007.

11. In August 2007, after discussions with CMS, the State agreed to set capitation rates based on the Federal fiscal year (October 1 – September 30) for each year of the Global Commitment waiver. As such, the State required additional actuarial consulting work to be completed in order to move the rates from the State to a Federal fiscal year. As of January 2008, the State has not set final per-member-per-month capitation rates for the audit period of July 1, 2006 through June 30, 2007 and is in the final stages of doing so. AHS has on going communication with CMS relative to these revisions and reports on progress and challenges in the quarterly report.
12. It appears that there are three general themes for KPMG's questioning of the costs relevant to the investment.
 - Definition of MCO Investment
 - Documentation of the cost
 - Allocation of the cost to GC

Outlined below is our response to each of these overarching issues:

1. Definition of MCO investment: Increasing the effectiveness of health care resources is one of the objectives of the Global Commitment Medicaid 1115 waiver demonstration. This requires that health care not be narrowly defined as the provision of medical care. It must be defined as the provision of services that improve the health status of the Medicaid population and ultimately Vermonters as a whole.

AHS and OVHA agree that these activities should be construed broadly in the spirit of the Global Commitment to Health's focus on the entire healthcare system and in the overall legislative context of

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Healthcare Reform. Ultimately the final decision and approval of each investment lies with the legislature. The general; definitions and examples of appropriate activities are outlined below.

Reduce the rate of uninsured and/or underinsured in Vermont. Programs that are designed to enable people to access health insurance fall under the heading of purposes that “reduce the uninsured and underinsured”. This would include, but not be limited to such activities as outreach, public education, and information and referral efforts, programs aimed at promoting the target populations’ ability to obtain and retain employment in which they have health insurance and access to improved offerings or otherwise provide assistance in the individual gaining affordable healthcare coverage.

Increase the access of quality health care to uninsured, underinsured, and Medicaid beneficiaries. Access is defined as both availability of services and providers as well the beneficiary’s ability to understand, engage and benefit from services. Access without benefit is a waste of resources and is in fact not access at all. Supports like case management, supportive counseling in various aspects of daily living, adequate and stable food and shelter make the access to health care productive are qualifying investments. Programs that promote and enhance a beneficiaries desire to access quality health care, like smoking cessation or other health promotion activities also qualify.

Provide public health approaches to improve the health outcomes and the quality of life for Medicaid-eligible individuals in Vermont. These types of public health approaches are by definition aimed at the health outcomes of whole populations and not entirely focused on a single individual’s health care. Almost all public health measures aimed at Vermont citizens will be of benefit to those Vermonter receiving Medicaid assistance. As such, budget allocation of these type of investments will be a % equal to or less than an agreed upon proxy for the percentage of Medicaid beneficiary represented in the overall population of Vermonters at the time of the investment. Currently, the agreed upon proxy for SFY06 and SFY07 is the most recent BISHCA Vermont Household Health Insurance Survey adjusted annually for the change in the FMAP. To the extent that a public health approach targets a specific segment of the population, the percentage used to determine allowable investment amounts will be adjusted proportionally.

Encourage the formation and maintenance of public-private partnerships in health care. Vermont recognizes that achieving positive health care outcomes for Vermonters are not solely the responsibility of the public sector. To that end, investments will support efforts to work with commercial payers, employers, communities, municipalities, academic institutions, foundations and/or other public private partnerships that will enhance healthcare delivery and/or promote other necessary infrastructure reforms. It is possible certain public private partnerships will be population based. As such, budget allocation of these type of investments will be a % equal to or less than an agreed upon proxy for the percentage of Medicaid beneficiary represented in the overall population of Vermonters at the time of the investment. Currently, the agreed upon proxy for SFY06 and SFY07 is the most recent BISHCA Vermont Household Health Insurance Survey adjusted annually for the change in the FMAP. To the extent that the public private partnership targets a specific segment of the population, the percentage used to determine allowable investment amounts will be adjusted proportionally.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- 2. Documentation of Costs:** Three of the investments are identified as being insufficiently documented: Physician Training, Physician and Dentist Loan Repayment, and Mental Health Children's Community Services.

Physician Training – This is an amount included in the annual appropriation to the University of Vermont. The University states that it uses part of the appropriation to train medical students, but it does not account for the specific expenditures. The Medicaid program determines the allowable MCO investment based on the percentage of expenditures for general public health activities that apply to the population under 300% of FPL. We believe this is an appropriate basis for determining and documenting the expenditure.

Physician and Dentist Loan Program – The University of Vermont's AHEC program administers this loan forgiveness investment. AHEC has procedures to ensure that practitioners receiving loan forgiveness do meet the grant eligibility requirements and that they practice in Vermont the required length of time. Documentation of those procedures is available and will be provided to the auditors.

Mental Health Children's Community Services – The phrasing of the finding makes it appear that the auditor was not provided documentation in support of the expenditures. Discussion of the finding with the auditors established that not to be the case. The finding only questions whether the investment is an allowable one under the waiver's Standard Terms and Conditions.

- 3. Allocation of Costs:** The 2000 Vermont Family Health Insurance Survey was the most current and most reliable data available at the time of preparing the SFY07 budget. The 2005 survey results were released in August, 2006 (after the SFY07 appropriations process.) The percentage of Vermonters under 300% of FPL was 56.3% based on the 2000 Survey. Using the change in the Federal Applicable Medicaid Percentage (FMAP) to update the 2000 percentage gives a percentage of 53.34% ($56.3/62.17 \times 58.9$) at the time the 2007 budget was enacted into law.

Additionally, the Agency of Human Services and OVHA, the MCO, are reviewing the proposed process outlined below and if approved it will be adopted effective as it applies on March 31, 2008 for the approval of MCO investments of its excess funds:

Existing investments will be reviewed by the AHS MCO Financial Administrator, the AHS Quality Improvement Director and the OVHA CFO at the close of the state fiscal year for

- Reconciliation of actual versus projected expenditures;
- Presence of appropriate documentation of expenditure; and
- If required, any outcome data.
- Any new investments or revisions to current investments approved in the budget bill

A summary report of findings will be given to the Director of Healthcare Operations, AHS CFO and the MCO Director.

All recommendations for new, increased or reductions in investments will be made by AHS and/or OVHA during the course of the Executive branch budget building.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Final decisions on programs and funding levels to be included in the MCO investments will be made by the Vermont State Legislature.

Scheduled Completion Date: Various as noted in the above management's response

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

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-16

U. S. Agency of Health and Human Services

Program Name and CFDA Number

Medical Assistance Program (CFDA 93.778)

Federal Award Numbers and Award Years

11-W-00194/1, (10/1/05 – 9/30/10)

75X0512, (7/1/06 – 6/30/07)

Criteria

Section 1927 of the Social Security Act allows States to receive rebates for drug purchases the same as other payers receive. Drug manufacturers are required to provide a listing to CMS of all covered outpatient drugs and, on a quarterly basis, are required to provide their average manufacturer's price and their best prices for each covered outpatient drug. Based on these data, CMS calculates a unit rebate amount for each drug, which it then provides to States. No later than 60 days after the end of the quarter, the State Medicaid agency must provide to manufacturers drug utilization data. Within 30 days 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. (Section 1927 of the Social Security Act)

No later than 60 days after the end of the quarter, the State Medicaid Agency must provide to manufacturers drug utilization data. Within 30 days (30 days plus 8 days for mailing) of receipt of the utilization data from the Ste, 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

During our test work over drug rebates, we found that the Agency of Human Services did not receive notification of any discrepancies or payment within 38 days of notifying the manufacturer of drug utilization in 22 out of 30 drug rebates selected for test work for the year ending June 30, 2007. In addition, for the quarter ending September 30, 2006, the Agency of Human Services did not provide to the manufacturer the required drug utilization data within the 60 day time requirement. As a result, the Agency of Human Services is not in compliance with the time requirements outlined in the above compliance requirement. There do not appear to be adequate controls in place to receive drug rebate payments timely and this could result in faulty reporting to the government on the CMS-64 report and funds being drawn in advance of when they are needed. This appears to be systemic in a nature and is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommended that the Agency of Human Services review its procedures and implement the required controls to ensure that they are receiving notification or payment within the appropriate time period. In

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

addition, we recommend that if there will be a delay in providing required drug utilization to manufacturers that the Agency of Human Services notifies CMS and receives approval for the delay.

Management's Response and Corrective Action

There was a delay in the submission of drug rebate invoices in three of the five calendar quarters from January 2006 through June 2007. The delay in the first quarter of 2006 was due to the implementation of Medicare Part D. The other delays were the result of program decisions concerning provider management and coding changes. They were not due to inadequacies of the process of generating and tracking the drug rebates. In the future OVHA will inform CMS of the need for a delay in the submission of drug rebate invoices and request a waiver from the requirement if that is necessary. Most of the delayed remittances were a consequence of delayed invoices, but the accounting for the receivables was maintained and OVHA was provided with the reports that enabled it properly to control the asset. While OVHA will take steps to comply with the reporting requirements for notification of the manufacturers, OVHA is not able to ensure that the manufacturers comply with the requirement that they respond within 30 days. There are no provisions in the Social Security Act for either reporting to CMS by OVHA of failures to comply by manufacturers or penalties should a manufacturer fail to comply.

Scheduled Completion Date: April 1, 2008

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

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-17

U. S. Agency of Health and Human Services

Program Name and CFDA Number

Medical Assistance Program (CFDA 93.778)

Federal Award Numbers and Award Years

11-W-00194/1, (10/1/05 – 9/30/10)

75X0512, (7/1/06 – 6/30/07)

Criteria

In most cases, the State must refund provider overpayments to the Federal Government within 60 days of identification of the overpayment, regardless of whether the overpayment was collected from the provider. (42 CFR Sections 433.300 through 433.520, and 433.40)

Condition Found

During our test work over provider overpayments for the year ending June 30, 2007, we noted that 20 out of 30 overpayments selected for test work were not refunded within 60 days. As a result, it does not appear that the Office of Vermont Health Access (OVHA) had adequate procedures in place to properly refund provider overpayments to the Federal Government within 60 days of identification of overpayment or to properly report the overpayment on the CMS-64 quarterly financial report, regardless of whether the overpayment was collected from the provider. This appeared to be a result of staffing constraints and this could result in inaccurate federal reporting. This finding is considered to be a material weakness.

Questioned Costs

Not determinable

Recommendation

We recommend that the Agency of Human Services review its existing procedures over reporting provider overpayments and develop the controls and procedures necessary to ensure that all overpayments are properly credited to the Federal Government within the 60 day requirements.

Management's Response and Corrective Action

Subsequent to the OIG audit, the overpayments were identified and the repayment of the federal share was made on the CMS-64 reports. Most overpayments are identified and processed through the MMIS system which ensures timely crediting of the federal government. However, cost settlements with institutional providers and overpayments identified by MFRAU are not processed in the same way. By February 29, 2008 the AHS Internal Audit Group will have met with the organizations responsible for cost settlements and with MFRAU to agree on the definition of overpayments requiring reimbursement of the federal government and a reporting process that to provide for timely reimbursement.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Scheduled Completion Date: April 1, 2008

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

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-18

U. S. Agency of Health and Human Services

Program Name and CFDA Number

Medical Assistance Program (CFDA 93.778)

Federal Award Numbers and Award Years

11-W-00194/1, (10/1/05 – 9/30/10)

75X0512, (7/1/06 – 6/30/07)

Criteria

State ADP security programs shall include the following components (1) a security plan and appropriate policies and procedures to address various areas, such as physical security, telecommunications security, and contingency plans, (2) periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems, and (3) biennial ADP system security reviews of installations involved in the administration of HHS programs, which cover, at a minimum, an evaluation of physical and data security operating procedures and personnel practices (45 CFR 95.621).

Conditions 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 and the Department of Children and Families (DCF) is responsible for determining participant eligibility. In addition, other AHS organizations, such as the Department of Health and the Department of Aging and Independent Living, play significant roles in the Medicaid program. While Medicaid eligibility is determined by the State of Vermont (the State), 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. MedMetrics, in turn, subcontracts with SXC Health Solutions for the information technology (IT) aspects of the pharmacy claims approval process. The State itself is also a major control point for ensuring the integrity of claims processing. For example, the State controls access to the claims processing system by State personnel and approves changes to the system.

During our test work, we noted that AHS does not meet the federal ADP security program requirements because there are significant elements of the requirements that have not been completed or were completed for some, but not all, of the applicable state or service provider entities. For example,

- AHS does not have a security plan.
- Risk assessments were performed by EDS and AHS for the Medicaid claims processing and eligibility systems, respectively, but a risk assessment for the Medicaid program as a whole (including the State's internal operations related to claims processing) has not been performed. In addition, there are no action plans or processes in place to track the activities, milestones, and resources needed to fix the weaknesses found during these assessments.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- Independent examinations of the effectiveness of controls (also known as SAS 70 type II reports) serve as the system security reviews for the EDS and SXC Health Solutions systems and processes. However, (1) the EDS report does not include controls related to significant activities performed by other EDS units and (2) OVHA's contract with MedMetrics did not require a SAS 70 review or other comparable independent security review as of early November 2007. According to OVHA officials, they are in the process of addressing these limitations. Nevertheless, since these reports do not include an assessment of the effectiveness of the State's security controls related to the Medicaid program, by themselves they only partially satisfy the federal requirement for biennial system security reviews. Indeed, the importance of the State's security controls are recognized in both SAS 70 reports, which indicate that their opinions are based upon the application of relevant controls at the user organizations (i.e., the State).

Each of the major elements of the federal system security requirements – security planning, risk assessments, and security reviews – are important components of a strong IT security program. Moreover, if all aspects of the Medicaid program – whether conducted by service providers or State agencies – are not considered in the execution of these requirements then critical security weaknesses may not be identified and corrected.

Based on the information above, AHS is not in compliance with federal regulations. AHS does not appear to have the staffing resources, procedures and controls necessary to ensure compliance with federal regulations and this could result in inaccurate payments made under the program. This finding appears to be systemic and is considered a material weakness.

Questioned Costs

None

Recommendation

We recommend that AHS develop a security plan for the Medicaid program that encompasses both eligibility and claims processing. AHS should 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. Such an assessment could be a single analysis that encompasses all aspects of the Medicaid eligibility and claims processing processes or could be multiple organization or process-specific analyses that, taken together, comprise a comprehensive assessment. AHS should develop (or direct applicable service providers to develop) action plans or processes to track the activities, milestones, and resources needed to fix the weaknesses found as part of the risk assessments. 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. Such a system security review could be a single analysis that encompasses all aspects of the Medicaid eligibility and claims processing processes or could be multiple organization or process-specific reviews that, taken together, comprise a comprehensive ADP system security review.

Management's Response and Corrective Action

- (1) In response to the recommendation for AHS to develop a security plan for the Medicaid program that encompasses both eligibility and claims processing.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

The Agency of Human Services Office of the CIO and the Information Systems Security Director are working on the first portion of the security plan and expect it to be completed in the next 6 months. For Medicaid, the security plan will be a compilation of application specific security plans. The Security Director will work with OVHA, DCF, EDS, Medmetrics, and others as needed to create or assemble individual application plan components.

The AHS strategy is to create a set of security plans based on the model provided by CMS in the Systems Security Plan Methodology document at:

http://www.cms.hhs.gov/InformationSecurity/Downloads/ssp_meth.pdf

This will consist of:

- a 'Master Security Plan' specifying the general and application specific controls to be employed in all general support systems and major applications
- a domain specific security plan for each General Support System (GSS) specifying the deviations from the master plan and information specific to each GSS
- an application specific security plan for each Major Application (MA) which would separately address the deviations from the master plan with respect to the Pharmacy system, ACCESS and MMIS (AHS department specific controls such as how we request accounts from the contractor along with AHS and contractor adherence to those controls for each system)
- an application specific security plan for each MA managed by each contractor addressing physical, equipment, software, data, telecom, personnel, contingency planning, and emergency preparedness security controls.

(2) In response to the recommendation for AHS to perform a comprehensive risk assessment of the Medicaid systems and control processes.

You are correct, risk assessments were performed for ACCESS (supporting eligibility) and the EDS MMIS application (supporting claims processing). However, we do not yet have a risk assessment of the Pharmacy claim process and will work with our contractor (Medmetrics) to generate one. Additional functions performed by OVHA staff related to these applications including account management and authentication/authorization were not included in these application specific risk assessments. Our interpretation of the risk assessment finding is that we need to complete a risk assessment of these additional functions and together with the results of the risk assessments of the ACCESS, EDS/MMIS, and Pharmacy systems, compile an overall "Medicaid Risk Assessment."

AHS will use CMS guidance:

http://www.cms.hhs.gov/InformationSecurity/Downloads/ra_and_ssp_guidance.pdf in compiling both the security plan and required risk assessments.

Scheduled Completion Date: June 30, 2008

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

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-19

U. S. Agency of Health and Human Services

Program Name and CFDA Number

Medical Assistance Program (CFDA 93.778)

Federal Award Numbers and Award Years

11-W-00194/1, (10/1/05 – 9/30/10)

75X0512, (7/1/06 – 6/30/07)

Criteria

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 (Section 1923 of the Social Security Act and 42 USC 1396(r)).

Conditions Found

During our test work over disproportionate share hospital (DSH) payments, we noted the following:

- A. Under 42 USC 1396(r), in order to qualify as an eligible hospital receive a DSH payment, the following criteria must be met:
 - 1. DSH hospitals must generally have at least 2 obstetricians who have staff privileges at the hospital and who have agreed to provide non-emergency obstetric services to Medicaid patients
 - 2. Each hospital must have a Medicaid inpatient utilization rate (MIUR) of at least 1%
 - 3. Each hospital must have a low income utilization rate (LIUR) that exceeds 25%

The Agency of Human Services (AHS) currently does not solicit the necessary information to ensure that DSH payments are only made to hospitals with the required number of obstetricians and does not calculate the hospital's MIUR or LIUR calculation. AHS in practice has defined DSH-eligible hospitals more broadly by including in the definition to include general hospitals otherwise not qualifying for DHS payments and does not perform any tests to ensure they are actually paying an eligible DSH hospital. As a result, the AHS does not appear to be in compliance with this requirement.

- B. CFR 413.80(c) prohibits the inclusion of bad debts in the calculation of the DSH payment to be made to a hospital as bad debts are a reduction in revenue and is not an allowable cost. Per review of the Medicaid State Plan, the AHS currently includes bad debts as part of its DSH calculation. As a result, the State does not appear to be in compliance with this requirement.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- C. 42 USC 1396(r) provides that states are limited in the amount that they can pay a hospital by the hospital-specific DSH cap. This cap is defined in statute as the costs incurred during the year of furnishing hospital services (net of Medicaid payments (other than DSH) and payments by uninsured patients) by the hospital to individuals who are Medicaid-eligible or have no health insurance or other source of third party coverage. The Medicaid State Plan in Vermont does not address hospital-specific DSH payment limits and the limits are not calculated in practice. As a result, we do not have any evidence to support that a limit was taken into consideration to the payments made to each hospital and we aren't able to conclude whether or not hospital's received more than what they were entitled to. As a result, we can not conclude that the AHS is in compliance with this requirement.
- D. 42 USC 1396(r) requires States to complete an annual report to the federal government concerning the DSH payments made. For the year ending June 30, 2007, AHS did not submit this report nor has the State ever submitted the required report. As a result, AHS is not in compliance with this requirement.

The above deficiencies appear to be systemic in nature. The lack of procedures to ensure that DSH payments are calculated and paid to eligible hospitals in accordance with federal regulations could result in unallowable payments being made. This is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency of Human Services review its Medicaid state plan and the above cited federal regulations and implement the necessary controls to ensure that the Agency of Human Services has properly identified eligible DSH hospitals, that DSH payments are calculated correctly and that the required federal reports are filed on an annual basis.

Management's Response and Corrective Action

This finding is based on the review of its procedures that OVHA commissioned to ensure that it is complying with the applicable federal regulations. OVHA is working with a contractor, Burns and Associates, to follow their guidance on the corrective actions required by the findings.

Scheduled Completion Date: Prior to the next DSH payments

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

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-20

U. S. Agency of Health and Human Services

Program Name and CFDA Number

Medical Assistance Program (CFDA 93.778)

Federal Award Numbers and Award Years

75X0512, (7/1/06 – 9/30/07)

11-W-00191/1, (10/1/05 – 9/30/10)

Criteria

Funds can only be used for Medicaid benefit payments (as specified in the state plan, federal regulations, or an approved waiver), expenditures for administration and training, expenditures for the State Survey and Certification Program, and expenditures for state Medicaid Fraud Control Units (42 CFR sections 435.10, 440.210, 440.220, and 440.180).

The state Medicaid agency or its designee is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plan (42 CFR section 431.10).

The State is required to use the income and eligibility verification system (IEVS) to verify eligibility using wage information available from such sources as the agencies administering state unemployment compensation laws, Social Security Administration (SSA), and the Internal Revenue Service to verify income eligibility and the amount of eligible benefits. With approval from HHS, states may use alternative sources for income information. States also: (a) may target the items of information for each data source that are most likely to be most productive in identifying and preventing ineligibility and incorrect payments, and a State is not required to use such information to verify the eligibility of all recipients; (b) with reasonable justification, may exclude categories of information when follow-up is not cost effective; and (c) can exclude unemployment compensation information from the Internal Revenue Service or earnings information from SSA that duplicates information received from another source (42 USC 1320b-7(a); 42 CFR sections 435.948(e) and 435.953).

Condition Found

During our test work over the Medicaid eligibility, 12 out of the 110 participants selected for eligibility testwork were eligible to receive benefits under the Long Term Care Waiver. These participants received services under the moderate needs assessment category which represents \$1,407,504 in total claims paid for the year ending June 30, 2007. To receive benefits under the moderate needs assessment category, participants are required to go to a Designated Agency, which is an organization contracted with by the Agency of Human Services that provides a variety of health care related services. The Designated Agency assists the participant in completing an application that is used to determine whether or not the participant is eligible to receive services. No supporting documentation is obtained by the Agency of Human Services or the Designated Agency to verify that the participant met the monetary eligibility requirements for this program beyond what is self-declared by the participant on the application. The Agency of Human Services believes its federally approved operational protocol states that the participant is only required to self-declare their income and as a result, no subsequent verification of the reported income is performed by

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

the Agency of Human Services through its income and eligibility verification system (IEVS). We could not confirm during our review of the federally operational protocol that the Agency of Human Services was not required to subsequently verify income eligibility through the IEVS. As a result we can not conclude that each of these 12 participants was eligible to receive benefits.

The lack of controls and procedures to ensure that sufficient documentation is obtained to support all eligibility determinations made by the Agency of Human Services could result in participants receiving benefits that do not properly meet the eligibility requirements of the program. This appears to be systemic in nature and is considered to be a material weakness.

Questioned Costs

\$25,986 – the cost paid on behalf of the twelve individuals noted above.

Recommendation

We recommend that the Agency of Human Services review its current eligibility process and implement the necessary controls and procedures to ensure that sufficient documentation is obtained to support that all participants for all Medicaid programs are eligible to receive benefits under the Medicaid program. This would include ensuring that income is subsequently verified through the IEVS.

Management's Response and Corrective Action

Management believes that there is no corrective action required. Members of the Moderate Needs Group are recipients of expansion services under the waiver. The benefits and the group were defined to affect the cost of long-term care by providing services that will prevent individuals from becoming Medicaid eligible for traditional Medicaid long-term services. To restrict the waiver to serving only the population already eligible for Medicaid would defeat the purpose of the demonstration. For this reason the allowable income for those served in this group is 300% of poverty, and they are allowed to self declare their income without further verification. This was discussed with CMS during the development of the waiver and is explicit in the documents that are part of the waiver's operational protocol.

Scheduled Completion Date: Not considered necessary

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

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Finding 07-21

U. S. Agency of Health and Human Services

Program Name and CFDA Number

Block Grants for the Prevention and Treatment of Substance Abuse (CFDA 93.959)

Federal Award Number and Award Year

06B1VTSAPT-02, (10/1/05 – 9/30/07)

Criteria

A pass-through entity is responsible to identifying to the subrecipient the federal award information (e.g. CFDA title and number, award name, name of federal agency, etc) and applicable compliance requirements at the time of granting the award to the subrecipient.

A pass-through entity is also responsible for 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 contract or grant agreements and that performance goals are achieved.

Conditions Found

During our test work over the Department of Health's subrecipient monitoring process for this program, we noted the following:

- A. For 8 of 30 subrecipients selected for test work, the Department of Health did not complete a "Subrecipient Monitoring" checklist to document the monitoring activities performed over the subrecipient as required by its subrecipient monitoring policy.
- B. For 4 of 30 subrecipients selected for test work, the Department of Health did not complete the A-133 report review checklist to document the review of the subrecipient's audit report as required by its subrecipient monitoring policy.
- C. For each of 30 grant agreements selected for test work, the Department of Health's grant agreement did not adequately identify the compliance requirements (i.e. allowable costs, subrecipient monitoring, etc) that were applicable to the spending of federal awards by the subrecipient.
- D. For 15 of 30 grant agreements selected for test work, the Department of Health either did not obtain the required program and/or financial reports from the subrecipient as outlined in the subrecipient's grant agreement or did not document that the reports submitted were reviewed to ensure that the subrecipient was properly using the federal funds based upon federal requirements and performance goals were being achieved.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

- E. For 1 of 30 grant agreements selected for test work, there was no documentation that a site visit was performed over the subrecipient during the grant period to monitor the subrecipient's activities and use of federal funds. Per review of the Department of Health's subrecipient monitoring policy, as this grant was larger than \$50,000, at least one site visit was required to have been performed.

The Department of Health does not appear to have adequately monitored its subrecipients for this program in accordance with its internal policies and procedures and in accordance with federal regulations. The lack of consistently applied monitoring procedures could lead to unallowable costs being paid to the subrecipient. This appears to be systemic in nature and is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department of Health review its existing procedures for monitoring subrecipients and implement controls and procedures to ensure it is adequately monitoring all subrecipients to ensure compliance with the requirements stated above from OMB Circular A-133.

Management's Response and Corrective Action

Grant managers are being reminded of the importance of completing the monitoring checklist as part of the grant management activity. They will also be reminded of the importance of consistently logging, reviewing and documenting the receipt of financial and program reports, as required in the grant agreements. Identification of the applicable federal regulations regarding grant administration and allowable costs will be made part Attachment A (Scope of Work) in all future grant agreements.

Scheduled Completion Date: Training, in this regard, is scheduled for mid- February 2008

Current year subrecipient grant managers will be contacted to include the compliance requirements in current year grants. Grant managers will also be directed to complete monitoring checklists for either on-site or bench reviews.

Scheduled Completion Date: These changes have already been made or will be made April 1, 2008. Forms are being developed for this purpose

Universal monitoring checklists are being developed and will be revised so it is consistent with the agency's protocols. Training and Orientation is being provided to all grant managers so that adequate documentation is provided for each monitoring activity, be it on site or a bench review.

Scheduled Completion Date: This process is expected to be completed by April 1, 2008

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