

STATE OF VERMONT

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

Year Ended June 30, 2004

STATE OF VERMONT

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

Year ended June 30, 2004

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RANDOLPH D. BROCK
STATE AUDITOR
STATE OF VERMONT
OFFICE OF THE STATE AUDITOR



P.O. Box 564
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Exhibit I

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

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

Compliance

We have jointly 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, 2004. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of current year findings and questioned costs (Exhibit III). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

Our compliance audit, described below, did not include the operations of the component units that received federal financial assistance during the year ended June 30, 2004 because the component units engaged other auditors to perform audits in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State's compliance with those requirements.

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

As described in findings 2004-8; 2004-10; 2004-13; 2004-16; 2004-18; 2004-19; 2004-20; 2004-21; 2004-23; and 2004-24 in the accompanying schedule of findings and questioned costs, the State did not comply with requirements regarding federal reporting (CFDA #20.500; #20.507; and #20.509), eligibility (CFDA #93.283), subrecipient monitoring (CFDA #10.561; #93.268; #93.283; #93.558; and #93.959), matching, level of effort and earmarking (CFDA #93.283) and special test provisions (CFDA #93.268; and #93.959) that are applicable to the Federal Transit Cluster (CFDA #20.500 and #20.507), Formula Grants for Other Than Urbanized Areas (CFDA #20.509), Immunization Grants (CFDA #93.268), Centers for Disease Control and Prevention – Investigations and Technical Assistance (CFDA #93.283), Block Grants for Prevention and Treatment of Substance Abuse (CFDA #93.959); Temporary Assistance for Needy Families (CFDA #93.558) and, State Administrative Matching Grants for Food Stamp Program (CFDA #10.561) programs. Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of current year findings and questioned costs (Exhibit III) as items 2004-9; 2004-11; 2004-12; 2004-14; 2004-15; 2004-17; 2004-22; 2004-25; 2004-26; and 2004-27.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-6; 2004-7; 2004-8; 2004-10; 2004-13; 2004-16; 2004-18; 2004-19; 2004-20; 2004-21; 2004-23; and 2004-24.

Speaker of the House of the Representatives Gaye Symington
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A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-6; 2004-7; 2004-8; 2004-10; 2004-13; 2004-16; 2004-18; 2004-19; 2004-20; 2004-21; 2004-23; and 2004-24 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have jointly audited the Schedule of Expenditures of Federal Awards (Schedule) of the State of Vermont for the year ended June 30, 2004. This Schedule is the responsibility of the State's management. Our responsibility is to express an opinion on this Schedule based on our audit.

We conducted our audit of the Schedule of Expenditures of Federal Awards in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Expenditures of Federal Awards is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule of Expenditures of Federal Awards. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the Schedule of Expenditures of Federal Awards referred to above presents fairly, in all material respects, the federal expenditures of the State of Vermont for the year ended June 30, 2004 in accordance with the basis of accounting described in note 1(c) to the Schedule of Expenditures of Federal Awards.

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

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.



Randolph D. Brock
State Auditor



KPMG LLP
KPMG LLP

March 31, 2005

STATE OF VERMONT
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2004

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Department of Agriculture</u>		
10.025	Plant and Animal Disease, Pest Control, and Animal Care	\$ 314,675
10.450	Crop Insurance	48,283
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	471,537
10.551	Food Stamps (Cash)	6,005,742
10.551	Food Stamps (EBT)	33,573,601
10.553	School Breakfast Program	2,947,399
10.555	National School Lunch Program	7,788,158
10.556	Special Milk Program for Children	73,257
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	11,210,741
10.558	Child and Adult Care Food Program	3,902,631
10.559	Summer Food Service Program for Children	353,603
10.560	State Administrative Expenses for Child Nutrition	617,294
10.561	State Administrative Matching Grants for Food Stamp Program	6,266,342
10.565	Commodity Supplemental Food Program	313,554
10.568	Emergency Food Assistance Program (Administrative Costs)	73,019
10.572	WIC Farmers' Market Nutrition Program (FMNP)	65,877
10.576	Senior Farmers Market Nutrition Program	40,863
10.664	Cooperative Forestry Assistance	1,573,594
10.769	Rural Business Enterprise Grants	12,133
10.999	Federal Egg Inspection Program	1,470
10.999	Organic Certification - Handlers	7,877
10.999	Organic Certification - Producers	71,820
10.999	Dietary Guidelines	1,947
10.999	USDA Cooperative Agreement-Battenkill (DEC)	33,339
10.999	USDA Cooperative Agreement-Battenkill (FW)	11,975
		<u>75,780,731</u>
<u>U.S. Department of Commerce</u>		
11.426	Financial Assistance for National Centers for Coastal Ocean Science	<u>12,441</u>
<u>U.S. Department of Defense</u>		
12.002	Procurement Technical Assistance For Business Firms	163,522
12.100	Aquatic Plant Control	379,700
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services	<u>13,811</u>
		<u>557,033</u>
<u>U.S. Department of Housing and Urban Development</u>		
14.181	Supportive Housing for Persons with Disabilities	8,426
14.228	Community Development Block Grants / State's Program	7,808,375
14.231	Emergency Shelter Grants Program	349,872
14.235	Supporting Housing Program	326,019
14.239	HOME Investment Partnerships Program	3,030,877
14.999	Office of Fair Housing - Capacity Building	<u>121,517</u>
		<u>11,645,086</u>

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Department of the Interior</u>		
15.560	National Forensic Science Improvement Act	\$ 26,187
15.605	Sport Fish Restoration	2,652,413
15.608	Fish and Wildlife Management Assistance	85,286
15.611	Wildlife Restoration	1,264,428
15.615	Cooperative Endangered Species Conservation Fund	15,500
15.622	Sportfishing and Boating Safety Act	201,164
15.625	Wildlife Conservation and Restoration	150,319
15.631	Partners for Fish and Wildlife	35,423
15.633	Landowner Incentive	877
15.634	State Wildlife Grants	116,279
15.810	National Cooperative Geologic Mapping Program	50,931
15.904	Historic Preservation Fund Grants-In-Aid	307,064
15.916	Outdoor Recreation - Acquisition, Development and Planning	333,468
15.999	Historic Preservation-National Park Service-Mount Independence ADA Trail Project	85,994
		5,325,333
<u>U.S. Department of Justice</u>		
16.007	State Domestic Preparedness Equipment Support Program	9,026,099
16.523	Juvenile Accountability Incentive Block Grants	1,312,055
16.528	Training Grants to Stop Abuse and Sexual Assault of Older Individuals or Individuals with Disabilities	131,495
16.540	Juvenile Justice and Delinquency Prevention - Allocation to States	736,930
16.547	Victims of Child Abuse	48,814
16.554	National Criminal History Improvement Program	1,148,398
16.560	National Institute of Justice Research, Evaluation and Development Project Grants	79,846
16.564	Crime Laboratory Improvement - Combined Offender DNA Index System Backlog Reduction	202,898
16.574	Criminal Justice Discretionary Grant Program	40,000
16.575	Crime Victim Assistance	1,289,953
16.576	Crime Victim Compensation	236,731
16.579	Byrne Formula Grant Program	2,096,455
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	33,187
16.582	Crime Victim Assistance / Discretionary Grants	148,575
16.585	Drug Court Discretionary Grant Program	13,830
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	396,399
16.588	Violence Against Women Formula Grants	747,494
16.589	Rural Domestic Violence and Child Victimization Enforcement Grant Program	434,462
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	529,930
16.591	Managing Released Sex Offenders	51,144
16.592	Local Law Enforcement Block Grants Program	426,640
16.593	Residential Substance Abuse Treatment for State Prisoners	95,340
16.607	Bulletproof Vest Partnership Program	489

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Department of Justice</u>		
16.609	Community Prosecution and Project Safe Neighbors	\$ 96,594
16.613	Scams Targeting the Elderly	80,900
16.710	Public Safety Partnership and Community Policing Grants	632,224
16.727	Enforcing Underage Drinking Laws Program	300,601
16.999	State Justice Institute - Family Court Project	16,627
16.999	Dept of Justice-Anti-Terrorism Task Force	37,106
16.999	Electronic Crimes	784
16.999	Drug Enforcement Administration - DEA	11,161
16.999	Marijuana Education	43,385
		20,446,546
<u>U.S. Department of Labor</u>		
17.002	Labor Force Statistics	468,582
17.005	Compensation and Working Conditions	22,754
17.207	Employment Service	3,263,083
17.225	Unemployment Insurance	90,337,216
17.235	Senior Community Service Employment Program	627,588
17.245	Trade Adjustment Assistance - Workers	371,000
17.249	Employment Services and Job Training Pilot - Demonstration and Research	574,362
17.258	WIA Adult Program	2,230,852
17.259	WIA Youth Activities	2,575,026
17.260	WIA Dislocated Workers	1,962,155
17.261	Employment & Training Administration Pilots, Demonstrations and Research Projects	2,122,715
17.266	Work Incentives Grant	239,259
17.503	Occupational Safety and Health - State Program	423,892
17.504	Consultation Agreements	396,034
17.600	Mine Health and Safety Grants	77,658
17.720	Employment Programs for People With Disabilities	113,957
17.801	Disabled Veterans' Outreach Program (DVOP)	188,777
17.804	Local Veterans' Employment Representative Program	344,420
		106,339,330
<u>U.S. Department of State</u>		
19.999	Help America Vote Act (SOS) \$16,000,000	476,561
<u>U.S. Department of Transportation</u>		
20.005	Boating Safety Financial Assistance	436,173
20.106	Airport Improvement Program	2,406,292
20.205	Highway Planning and Construction	108,411,652
20.219	Recreational Trails Program	746,214
20.312	High Speed Ground Transportation - Next Generation High Speed Rail Program	53,534

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Department of Transportation</u>		
20.500	Federal Transit - Capital Investment Grants	\$ 1,255,244
20.505	Federal Transit - Metropolitan Planning Grants	377,414
20.507	Federal Transit - Formula Grants	181,722
20.509	Formula Grants for Other Than Urbanized Areas	2,367,542
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	2,204,348
20.514	Transit Planning and Research	708,028
20.515	State Planning and Research	65,964
20.600	State and Community Highway Safety	3,410,737
20.700	Pipeline Safety	82,947
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	16,349
20.999	Fatal Accident Reporting System	20,842
		122,745,002
<u>U.S. Department of the Treasury</u>		
21.999	Bordergap	13,236
21.999	Jobs & Growth Tax Relief Flexible Assistance	50,000,000
		50,013,236
<u>National Foundation on the Arts and the Humanities</u>		
45.310	State Library Program	634,811
45.312	National Leadership Grant	58,460
		693,271
<u>U.S. Department of Veterans Affairs</u>		
64.124	All - Volunteer Force Educational Assistance	45,417
<u>U.S. Environmental Protection Agency</u>		
66.032	State Indoor Radon Grants	114,026
66.034	Surveys, Studies, Investigations Demonstrations and Special Purpose Activities Relating to the Clean Air Act	153,170
66.454	Water Quality Management Planning	106,060
66.458	Capitalization Grants for Clean Water State Revolving Funds	3,680,927
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	67,251
66.468	Capitalization Grants for Drinking Water State Revolving Fund	6,015,659
66.471	State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	147,647
66.474	Water Protection Grants to the States	90,152
66.481	Lake Champlain Basin Program	213,760
66.500	Environmental Protection - Consolidated Research	132,553
66.605	Performance Partnership Grants	5,697,925
66.606	Surveys, Studies, Investigations and Special Purpose Grants	19,519
66.608	Environmental Information Exchange Network Grant Program	379,703
66.651	Innovative Community Partnership	23,081
66.701	Toxic Substance Compliance Monitoring Cooperative Agreements	17,576
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	134,869

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Environmental Protection Agency</u>		
66.802	Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	\$ 88,305
66.805	Leaking Underground Storage Tank Trust Fund	643,342
66.808	Solid Waste Management Assistance	10,081
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements	219,848
66.811	Brownfield Pilots Cooperative Agreements	8,429
66.817	State and Tribal Response Program Grants	8,585
		17,972,468
<u>Federal Emergency Management Agency</u>		
81.039	National Energy Information Center	1,999
81.041	State Energy Program	790,576
81.042	Weatherization Assistance for Low - Income Persons	1,112,860
81.079	Regional Biomass Energy Programs	471,753
83.009	National Fire Academy Training Assistance	71,288
83.536	Flood Mitigation Assistance	15,829
83.544	Disaster Recovery - Public Assistance	1,142,063
83.552	Emergency Management Performance Grants	799,183
83.557	Pre Disaster Mitigation	292,292
83.562	Supplemental State and Local All Hazards Emergency Operations Planning Grant	130,228
83.563	Emergency Operations Center Self Assessment	46,706
83.564	Community Emergency Response Training	104,883
		4,979,660
<u>U.S. Department of Education</u>		
84.002	Adult Education - State Grant Program	1,088,898
84.010	Title I Grants to Local Educational Agencies	25,345,513
84.011	Migrant Education - State Grant Program	767,485
84.013	Title I Program for Neglected and Delinquent Children	345,153
84.027	Special Education - Grants to States	17,657,953
84.048	Vocational Education - Basic Grants to States	4,076,255
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	8,947,847
84.169	Independent Living - State Grants	282,814
84.173	Special Education - Preschool Grants	845,218
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who are Blind	298,583
84.181	Special Education - Grants for Infants and Families with Disabilities	2,249,043
84.184	Safe and Drug-Free Schools and Communities - National Programs	220,562
84.185	Byrd Honors Scholarships	85,500
84.186	Safe and Drug-Free Schools and Communities - State Grants	2,377,302
84.187	Supported Employment Services for Individuals with Severe Disabilities	303,672
84.196	Education for Homeless Children and Youth	152,741
84.213	Even Start - State Educational Agencies	1,122,883
84.215	Fund for the Improvement of Education	595,633

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Department of Education</u>		
84.224	Assistive Technology	\$ 256,791
84.235	Rehabilitation Services Demonstration and Training Programs	574,183
84.243	Tech-Prep Education	299,166
84.255	Literacy Programs for Prisoners	80,817
84.265	Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	40,069
84.281	Eisenhower Professional Development State Grants	121,816
84.287	Twenty-First Century Community Learning Centers	2,106,138
84.298	State Grants for Innovative Program	1,905,299
84.314	Even Start - Statewide Family Literacy Program	44,057
84.318	Education Technology State Grants	2,413,028
84.323	Special Education - State Program Improvement Grant for Children with Disabilities	669,823
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	119,310
84.330	Advanced Placement Program	120,505
84.332	Comprehensive School Reform Demonstration	873,953
84.336	Teacher Quality Enhancement Grants	9,791
84.338	Reading Excellence	100,906
84.340	Class Size Reduction	90,435
84.348	Title I Accountability Grants	19,437
84.352	School Renovation Grants	3,541,362
84.357	Reading First State Grants	1,361,435
84.365	English Language Acquisition Grants	428,584
84.366	Mathematics and Science Partnerships	324,657
84.367	Improving Teacher Quality State Grants	12,871,199
84.369	Grants for State Assessments and Related Activities	3,992,366
		<hr/>
		99,128,182
<u>U.S. Department of Health and Human Services</u>		
93.003	Public Health and Social Services Emergency Fund	1,339,206
93.006	State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	319,967
93.041	Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	28,051
93.042	Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	75,725
93.043	Special Programs for the Aging-Title III, Part D - Disease Prevention and Health Promotion Services	106,216
93.044	Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	1,843,894
93.045	Special Programs for the Aging - Title III, Part C -Nutrition Services	2,698,088
93.048	Special Programs for the Aging - Title IV and Title II - Discretionary Projects	341,883
93.052	National Family Caregiver Support	851,739

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

CFDA Number	Federal Agency/Program Title	Expenditures
	<u>U.S. Department of Health and Human Services</u>	
93.053	Nutrition Services Incentive Program	\$ 593,080
93.104	Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	1,137,779
93.110	Maternal and Child Health Federal Consolidated Programs	268,602
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	103,960
93.127	Emergency Medical Services for Children	111,953
93.130	Primary Care Services - Resource Coordination and Development	120,653
93.136	Injury Prevention and Control Research and State and Community Based Programs	279,562
93.150	Projects for Assistance in Transition from Homelessness (PATH)	311,750
93.184	Disabilities Prevention	192,407
93.197	Childhood Lead Poisoning Prevention Projects-State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	354,900
93.217	Family Planning - Services	769,756
93.230	Consolidated Knowledge Development and Application (KD&A) Program	725,438
93.234	Traumatic Brain Injury State Demonstration Program	41,038
93.238	Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	43,491
93.241	State Rural Hospital Flexibility Program	360,307
93.243	Substance Abuse and Mental Health Services - Projects of Regional and National Significance	29,092
93.251	Universal Newborn Hearing Screening	225,603
93.256	State Planning Grant-Health Care Access for the Uninsured	53,605
93.259	Rural Access to Emergency Devices Grant	251,634
93.268	Immunization Grants	1,474,455
93.283	Centers for Disease Control and Prevention - Investigations and Technical Assistance	9,891,594
93.301	Small Rural Hospital Improvement Grant Program	112,748
93.556	Promoting Safe and Stable Families	839,140
93.558	Temporary Assistance for Needy Families	35,126,097
93.563	Child Support Enforcement	2,054,421
93.566	Refugee and Entrant Assistance - State Administered Programs	289,206
93.568	Low-Income Home Energy Assistance	11,778,345
93.569	Community Services Block Grant	3,149,323
93.575	Child Care and Development Block Grant	13,140,327
93.576	Refugee and Entrant Assistance - Discretionary Grants	49,999
93.583	Refugee and Entrant Assistance - Wilson/Fish Program	129,381
93.586	State Court Improvement Program	106,110
93.590	Community - Based Family Resource and Support Grants	239,241
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	6,855,540
93.597	Grants to States for Access and Visitation Programs	93,956
93.600	Head Start	99,531

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

CFDA Number	Federal Agency/Program Title	Expenditures
<u>U.S. Department of Health and Human Services</u>		
93.617	Voting Access for Individuals with Disabilities - Grants to States	\$ 2,105
93.630	Developmental Disabilities Basic Support and Advocacy Grants	523,337
93.631	Developmental Disabilities Projects of National Significance	101,229
93.643	Children's Justice Grants to States	46,551
93.645	Child Welfare Services - State Grants	667,050
93.658	Foster Care - Title IV-E	11,363,631
93.659	Adoption Assistance	8,780,308
93.667	Social Services Block Grant	8,356,110
93.669	Child Abuse and Neglect State Grants	21,679
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	742,029
93.674	Chafee Foster Care Independent Living	596,166
93.767	State Children's Insurance Program	3,200,156
93.768	Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	605,953
93.775	State Medicaid Fraud Control Units	504,322
93.777	State Survey and Certification of Health Care Providers and Suppliers	939,639
93.778	Medical Assistance Program	537,786,001
93.779	Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	803,429
93.887	Health Care and Other Facilities	196,897
93.913	Grants to States for Operation of Offices of Rural Health	144,219
93.917	HIV Care Formula Grants	793,828
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	619,811
93.940	HIV Prevention Activities - Health Department Based	1,535,482
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	85,353
93.945	Assistance Programs for Chronic Disease Prevention and Control	169,055
93.952	Trauma Care Systems Planning and Development	22,264
93.958	Block Grants for Community Mental Health Services	793,143
93.959	Block Grants for Prevention and Treatment of Substance Abuse	5,087,283
93.977	Preventive Health Services - Sexually Transmitted Disease Control Grants	131,468
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	328,559
93.991	Preventive Health and Health Services Block Grant	373,266
93.994	Maternal and Child Health Services Block Grant to the States	2,035,603
93.999	ADAP Data Collection	24,222
94.003	State Commissions	33,412
94.004	Learn and Serve America-School and Community Based Programs	31,910
94.006	AmeriCorps	768,979

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

<u>CFDA Number</u>	<u>Federal Agency/Program Title</u>	<u>Expenditures</u>
<u>U.S. Department of Health and Human Services</u>		
94.007	Planning and Program Development Grants	\$ 110,211
94.009	Training and Technical Assistance	75,616
		<u>687,409,069</u>
<u>Social Security Administration</u>		
96.001	Social Security - Disability Insurance	2,932,027
96.008	Social Security - Benefits, Planning, Assistance and Outreach Program	621,289
		<u>3,553,316</u>
<u>U.S. Department of Homeland Security</u>		
97.004	State Domestic Preparedness Equipment Support Program	391,186
97.021	Hazardous Materials Assistance Program	6
97.023	Community Assistance Program State Support Services Element (CAP - SSSE)	40,522
97.036	Public Assistance Grants	128,151
97.039	Hazard Mitigation Grant	181,977
97.041	National Dam Safety Program	84,585
97.042	Emergency Management Performance Grants	803,594
		<u>1,630,021</u>
	Total Monetary Federal Financial Assistance	<u>1,208,752,703</u>
<u>Non-Monetary Awards</u>		
10.555	National School Lunch Program - Commodities	1,718,992
10.558	Child and Adult Care Food Program - Commodities	14,939
10.569	Emergency Food Assistance Program (Food Commodities)	1,186,365
39.003	Donation of Federal Surplus Personal Property	970,131
93.268	Immunization Grants - Nonmonetary	2,820,150
	Total Non-Monetary Federal Financial Assistance Expended	<u>6,710,577</u>
	Total Federal Financial Assistance Expended	<u>\$ 1,215,463,280</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

STATE OF VERMONT
Notes to Schedule of Expenditures of Federal Awards
June 30, 2004

(1) Summary of Significant Accounting Policies

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

(a) *Single Audit Reporting Entity*

For purposes of complying with the Single Audit Act Amendments of 1996, the State of Vermont (the "State") includes all entities that are considered part of the primary government, as described in the basic financial statements as of and for the year ended June 30, 2004. The Schedule of Expenditures of Federal Awards (the "Schedule") does not include component units identified in the notes to the basic financial statements.

(b) *Basis of Presentation*

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

1. Federal Financial Assistance - Pursuant to the Single Audit Act Amendments of 1996 and OMB Circular A-133, federal financial assistance is defined as assistance that non-federal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, food commodities, direct appropriations or other assistance and therefore, is reported on the Schedule of Expenditures of Federal Awards. Federal financial assistance does not include direct federal cash payments to individuals.
2. Type A and Type B Programs - OMB Circular A-133 establishes the levels of expenditures to be used in defining Type A and Type B federal financial assistance programs. Type A programs for the State of Vermont are those programs, or clusters of programs, which equal or exceed \$3,646,390 in expenditures, distributions, or issuances for the fiscal year ended June 30, 2004.

(c) *Basis of Accounting*

The accompanying Schedule of Expenditures of Federal Awards was prepared on the cash basis of accounting as reported on the federal financial reports submitted to the grantor agencies. These reports may not reconcile to the State's central accounting system, which is the primary source for information used to prepare the State's basic financial statements.

(d) *Matching Costs*

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

STATE OF VERMONT
Notes to Schedule of Expenditures of Federal Awards
June 30, 2004

(2) Categorization of Expenditures

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

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

(3) Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule which is prepared on the basis explained in Note 1(c).

(4) Unemployment Insurance (CFDA #17.225)

State unemployment tax revenues must be deposited to the Unemployment Trust Fund in the U.S. Treasury and may only be used to pay benefits under the federally approved State unemployment law. The OMB Circular A-133 Compliance Supplement requires that State Unemployment Insurance Funds, as well as federal funds, be included in the total expenditures of CFDA #17.225. Unemployment insurance expenditures are broken out as follows:

State	\$ 7,671,717
Federal	82,120,179
Reed Act Funding	<u>545,320</u>
	<u>\$ 90,337,216</u>

(5) Airport Improvement Program (CFDA #20.106)

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

STATE OF VERMONT
Notes to Schedule of Expenditures of Federal Awards
June 30, 2004

(6) Nonmonetary Federal Financial Assistance

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

National School Lunch Program - Commodities

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

Child and Adult Food Care Program - Commodities

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

Emergency Food Assistance Program (Food Commodities)

The Emergency Food Assistance Program helps supplement the diets of low-income Americans, including elderly people, by providing them with emergency food and nutrition assistance at no cost. Under this program, commodity foods are made available by the U.S. Department of Agriculture to States. States provide the food to local agencies that they have selected, usually food banks, which in turn distribute the food to soup kitchens and pantries that directly serve the public. Total federal expenditures included in the Schedule for CFDA #10.569, Emergency Food Assistance Program, represent the federal government's acquisition value of the food commodities provided to the State.

Donation of Federal Surplus Personal Property

The State obtains surplus property from various federal agencies at no cost. The property is then sold by the State to eligible organizations for a nominal service charge. Total federal expenditures included in the Schedule for CFDA #39.003, Donation of Federal Surplus Personal Property, represent the federal government's acquisition value of the federal property sold by the State.

Immunization Grants

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

STATE OF VERMONT
 Schedule of Current Year Findings and Questioned Costs
 For the Year ended June 30, 2004

(1) Summary of Auditors' Results

- (a) The independent auditor's report on the State's basic financial statements expressed an unqualified opinion.
- (b) The audit disclosed five reportable conditions in internal control over financial reporting based on an audit of the basic financial statements performed in accordance with *Government Auditing Standards*. Four of these reportable conditions were also considered to be material weaknesses.
- (c) No instances of noncompliance considered material to the basic financial statements were disclosed by the audit.
- (d) The audit disclosed 12 reportable conditions in internal control over compliance with requirements applicable to a major federal awards program. All 12 of these reportable conditions were also considered to be material weaknesses.
- (e) The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion, except for Federal Transit Cluster (CFDA #20.500 and #20.507); Formula Grants for Other than Urbanized Areas (CFDA #20.509); Centers for Disease Control and Prevention – Investigations and Technical Assistance (CFDA #93.283); Immunization Grants (CFDA #93.268); Block Grants for Prevention and Treatment of Substance Abuse (CFDA #93.959); Temporary Assistance for Needy Families (CFDA #93.558) and, State Administrative Matching Grants for Food Stamp Program (CFDA #10.561).
- (f) The audit disclosed findings 2004-6 through 2004-27 that are required to be reported by OMB Circular A-133.
- (g) The State's major programs were:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
<u>Food Stamp Cluster</u>	
10.551	Food Stamps
10.561	State Administrative Matching Grants for Food Stamp Program
<u>Child Nutrition Cluster</u>	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

<u>CFDA Number</u>	<u>Name of Federal Program</u>
<u>Fish and Wildlife Cluster</u>	
15.605	Sport Fish Restoration
15.611	Wildlife Restoration
<u>Preparedness Equipment Support Cluster</u>	
16.007	State Domestic Preparedness Equipment Support Program
97.004	State Domestic Preparedness Equipment Support Program
<u>Employment Services Cluster</u>	
17.207	Employment Service
17.801	Disabled Veterans' Outreach Program (DVOP)
17.804	Local Veteran's Employment Representative Program
<u>Federal Transit Administration Cluster</u>	
20.500	Federal Transit - Capital Investment Grants
20.507	Federal Transit - Formula Grants
<u>Highway Safety Cluster</u>	
20.600	State and Community Highway Safety
<u>Special Education Cluster</u>	
84.027	Special Education – Grants to States
84.173	Special Education – Preschool Grants
<u>Aging Cluster</u>	
93.044	Special Programs for the Aging- Title III, Part B-Grants for Supportive Services and Senior Centers
93.045	Special Programs for the Aging-Title III, Part C, - Nutrition Services
93.053	Nutrition Services Incentive Program

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

<u>CFDA Number</u>	<u>Name of Federal Program</u>
<u>Child Care Cluster</u>	
93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund
<u>Medicaid Cluster</u>	
93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program
<u>Other Programs</u>	
10.558	Child and Adult Care Food Program
17.225	Unemployment Insurance
20.509	Formula Grants for Other than Urbanized Areas
21.999	Jobs & Growth Tax Relief Flexible Assistance
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Fund
84.010	Title I Grants to Local Educational Agencies
84.048	Vocational Education-Basic Grants to States
84.367	Improving Teacher Quality State Grants
84.369	Grants for State Assessments and Related Activities
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
93.959	Block Grants for Prevention and Treatment of Substance Abuse

- (h) A threshold of \$3,646,390 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.
- (i) The State did not qualify as a low-risk auditee as that term is defined in OMB Circular A-133.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

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

Finding 2004 -1

Agency of Transportation Capitalization Issues

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires governmental entities to record and report capital assets. Capital assets include infrastructure assets such as roads and bridges. The assumptions underlying the capitalization of capital assets require that management establish policies, procedures and controls to record projects meeting its capitalization policy.

During 2003, management at the Agency of Transportation (AOT) reported its investment in infrastructure. During the preparation of the 2004 financial statements, management at AOT determined that its capitalization policy was not consistently applied. Specifically, management at AOT determined the following:

- A number of infrastructure projects were recorded as either capital assets or work in process at June 30, 2003. Additional costs were added to the projects during fiscal 2004. Management subsequently determined that ownership of these projects did not vest with the State of Vermont. Rather, these projects are owned by local municipalities throughout the State. As a result of this error, the 2004 financial statements were restated to remove approximately \$92 million of projects owned by the local municipalities.
- Concurrent with AOT's more thorough review of open construction projects, management determined that certain prior year infrastructure expenditures were not capitalized in accordance with the State's accounting policy. This required a restatement of the 2004 financial statements to capitalize approximately \$94 million of such expenditures.

The failure to consistently apply its capitalization policy and to ensure the accuracy of the information required to prepare complete and accurate financial statements constitutes a material weakness. Management should ensure its capitalization policy is consistently applied. This may require an evaluation of the front-end processes and controls in place to establish projects in the accounting system. Appropriate consideration should be given to ensure that personnel with the requisite skills and knowledge of both project management and accounting are involved.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 –1, Continued

Management's Response

The recently-appointed Secretary of the Agency of Transportation recognizes the importance of appropriate and accurate application of financial accounting standards, including capitalization of capital assets. Both the Secretary and her newly-appointed Director of Finance and Administration have significant accounting and management experience. This will be brought to bear in ensuring that a sound internal control structure is in place. Specifically, the material weakness cited will be addressed by June 30, 2005, by undertaking several actions, including:

- Assessing staff's skill and capabilities
- Organizing and staffing relevant functions appropriately
- Analyzing the capitalization policy and process
- Designing any indicated process improvements
- Developing or updating policies and procedures
- Implementing new processes
- Monitoring for compliance

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 -2

Subrecipient Monitoring

In accordance with OMB Circular A-133, the State is required to adhere to laws and regulations pertaining to federal financial assistance programs administered by the State. While these same requirements are not mandatory for the proper control over State-funded grants, sound fiscal management would indicate that policies, procedures, and controls should be in place to ensure the expenditure of State funds are in accordance with State laws and regulations. Once a subrecipient relationship is created, the State has a responsibility to ensure that the subrecipient is made aware that it has been awarded State funds through a grant agreement and to determine whether or not the subrecipient has spent the awarded funds in accordance with State regulations by implementing and performing procedures to monitor the grant activities of the subrecipient. Through the results of procedures performed during the audit of the financial statements, we have determined that adequate procedures to ensure that the appropriate use of State pass-through funds is monitored do not exist. These requirements are similar to the requirements imposed on the State through the awarding of federal financial assistance to subrecipients. While real progress has been made to address federal subrecipient issues, concerns still exist. In September 2003, Finance and Management issued Bulletin 5, Single Audit Policy for Subgrants. When fully implemented, Bulletin 5 is intended to enhance the State's compliance with federal grant requirements. However, similar attention has not been given to State-sponsored grants.

Based on the work performed during the audit, we have concluded the following:

- The State does not have policies or procedures to assist Departments in developing tools for monitoring a State subrecipient during the award period. As a result, many Departments do not have a mechanism in place to monitor subrecipients to ensure that the awarded funds are being spent in accordance with the written grant agreement.
- The State does not have a system in place to help Departments identify when a subrecipient arrangement is created. As a result, many Departments are unaware of the fact that they have even entered into subrecipient relationships and are therefore not monitoring the funds that are awarded. As there are no guidelines, there is no consistent manner in which subrecipient awards are monitored.

The State should evaluate its policies, procedures and controls over the monitoring of State grant funds awarded to subrecipients. This monitoring can be accomplished in a variety of ways, including program audits, site visits, or independent third party audits or reviews.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 -2, Continued

Management's Response

We appreciate the Auditor's recognition that real progress has been made to address Federal subrecipient issues. We, like the Auditor, have concerns because this is still in the implementation stage. When fully implemented in State Fiscal Year 2006, we expect to be in full compliance with Federal grant requirements. However, to be in full compliance, we will need to ensure that there is adherence to Bulletin 5, and this will require follow-up with Departments.

We agree with the recommendation to establish policies, procedures and controls for State funded grants. The Commissioner of Finance & Management will establish statewide guidelines for granting State funds by June 30, 2006.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 -3

Absence of Linkage Between Authorization and Expenditure

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

Management's Response

We agree that the compilation of the budget numbers continues to be a manual process. During the VISION upgrade, scheduled for completion during the fall of 2005, the Department of Finance and Management will evaluate the possibility of automating the generation of Budget to Actual Schedules.

The presentation of the State's Budget to Actual schedules are in accordance with Generally Accepted Accounting Principles. GASB's Codification of Governmental Accounting and Financial Reporting Standards, Section 1700.115 specifically states that the scope and method of state and local budgetary practices are outside the scope of financial reporting standards. Section 1700.116 states that the basis on which the budget is prepared establishes the basis on which the accounts are usually maintained and the budgetary reports must be prepared.

Given the above, we agree that the relationship between the budget in VISION, the state's centralized accounting system, and the authorizations passed by the Legislature is not clearly delineated. The Commissioner of Finance & Management will confer with the chairs of the House and Senate Appropriations Committees, by June 30, 2005, to gauge Legislative intent regarding appropriations and costs in regards to the Budget to Actual Schedule presentations. Depending upon the outcome of this discussion, the Commissioner of Finance & Management will recommend legislation or establish policy to resolve this issue by June 30, 2006.

We agree that the State does not use the encumbrance system for all liabilities, and that this system should be used when it is determined to be cost effective.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 -4

Manual and Complex Reconciliation Process

The preparation of the State's financial statements requires the coordination of departments and agencies throughout the State. While the Department of Finance and Management has made significant improvements in the underlying processes, continued effort and vigilance are required.

The State's accounting process is very decentralized and relies heavily on the individual departments and agencies to properly and accurately record activity on a timely basis. However, the Department of Finance and Management and the State do not have effective controls in place to ensure that the departments and agencies are discharging their financial accounting and reporting responsibilities. While the Department of Finance and Management is primarily responsible for preparing the State's financial statements, there are few controls in place over the financial reporting process to ensure information in the financial statements is analyzed or accurate. Existing controls are not sufficient to provide for:

- The effective oversight of departments/agencies that record financial activity to ensure they are using and reconciling departmental records to VISION. Since the Department of Finance and Management has not required all departments to use VISION, the reconciliation process is a critical control. Procedures should be in place to verify departments continue to reconcile the underlying financial information on a periodic basis.
- Automated compilation of the financial statement data and subsequent analysis of the information. A substantial amount of data needed to prepare the State's financial statements is still compiled manually.

In addition to the manual process used to compile the financial statements, the compilation of federal accounts receivable and the Schedule of Expenditures of Federal Awards is a long manual process subject to error. Moreover, much of the complex compilation rests on a single individual within the Department of Finance and Management, posing the risk of a Single Point of Failure should that individual become unavailable.

Policies, procedures, and controls should be in place to clearly specify the expectations on the part of Finance and Management with respect to ongoing financial reporting. This should include the commitment on the part of departments and agencies to perform periodic reconciliation of VISION to supporting documentation and procedures to verify compliance.

Management's Response

We appreciate the Auditor's acknowledgement that significant improvements in the underlying process have been made, and concur that continued effort and vigilance is required. We further agree that policies, procedures and controls should be in place to clearly specify the expectations on the part of Finance and Management with respect to ongoing financial reporting.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 –4, Continued

Based on information gathered during the next six months by our Operations Section, the Department of Finance and Management will issue its first report on best practices and minimum standards of controls containing requirements to be implemented statewide by October 31, 2005. This is to include implementing new or revised controls over the financial reporting process to ensure information in the financial statements is analyzed, accurate and submitted on a timely basis.

The Department of Finance and Management is in the process of performing a technical upgrade to the VISION financial accounting system. This upgrade combined with the subsequent implementation of Time and Labor and the Projects Modules are the major steps required to fully transition major departments such as VTRANS and Employment and Training to VISION. This transition will eliminate the need for time consuming and costly reconciliations to secondary accounting systems. The VISION financial upgrade will be completed by November 30, 2005. The implementation of the Time and Labor module will commence immediately following the VISION financials upgrade and will be completed by August 31, 2006. The Projects Module implementation schedule has not been fully defined as of yet, but it is expected to commence soon after the completion of the Time and Labor implementation.

Reconciliations between secondary systems and VISION are required by the Department of Finance and Management and will be mandated in the State's monthly closing instructions.

The Financial Reporting Section is working toward entering adjustments into VISION so it can be used to directly generate the financial statements for the fiscal year 2006 Comprehensive Annual Financial Report. We do acknowledge that we have a Single Point of Failure and that more needs to be done to ensure information is analyzed and accurate. During fiscal year 2005, the Commissioner of Finance & Management further enhanced resources in the Financial Reporting Section to address these very important issues and our vulnerability noted by the Auditor. The Financial Reporting Section is cross training its staff in our financial reporting processes to ensure more than one individual can perform each of the Section's responsibilities.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 -5

Revenue Recognition

The preparation of the State's financial statements requires the use of assumptions and accruals to determine revenue and expense for the year. Policies, procedures, and controls have been placed in operation to ensure all material amounts are properly and accurately recorded in the appropriate financial reporting period. At the Tax Department, these policies and procedures are incorporated into the year-end closing processes. However, during the 2004 year-end closing the following errors and misstatements were noted:

- The State's accounting policy specifies that cash received in the 60-day period following year-end related to tax liabilities for the prior year be recorded as accrued revenue. During 2004 subsequent cash receipts related to personal income tax liabilities at June 30, 2004 were not recorded. This required an adjustment in the amount of \$3.2 million to properly state revenue.
- The Legislature enacted a change as of July 1, 2004 in the allocation of tax revenue generated through the telecommunications sales and use tax. The new allocation places two-thirds of the revenue into the General Fund and one-third into the Education Fund. This change was not properly recorded by the State. This required an adjustment of approximately \$1 million to properly record revenue.

The above lack of attention placed on adherence to the policies and procedures is a concern. We strongly encourage the Tax Department to ensure all employees involved in the year-end closing process fully understand the policies and procedures related to the accumulation of information necessary to prepare complete and accurate financial statements. Procedures should be put in place to ensure that strict adherence to these policies is maintained.

Management's Response

The Tax Department concurs with the adjustments noted above.

The Business Office staff has duly noted these adjustments in their workplan for preparation of all future AAF-17's. In addition, they requested and received a detailed, audited report of personal income tax accruals for July and August and this report will become an on-going part of their AAF-17 workpapers. Finally, the AAF-17 workplan has been updated to include not only an examination of the date accrued revenues are "earned", but also any revenue allocation changes in effect on the day accrued revenues are "received".

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2004-6

Finance and Management

All Federal Programs in which the State Passes-Through Funds

Requirement

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

Finding

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

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

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 – 6, Continued

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

The lack of systems in place to effectively track and monitor subrecipients directly impacts the State's ability to ensure that federal awards that are passed through to grantees are used for allowable purposes under the federal award.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

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

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Finding 2004-6, Continued

Management's Response

Steps to Correct:

On September 5, 2003, the Secretary of Administration issued Bulletin #5 entitled "Single Audit Policy for Sub-grants – Compliance with OMB Circular A-133". The purpose of this bulletin was to establish the State of Vermont's basic requirements for managing subrecipient grants. This bulletin outlines the process to be followed by departments involved with granting funds to subrecipients, including providing definitions of subrecipient versus vender. It describes what information must be provided to subrecipients at the time a grant is made, and provides a standard grant document for departments' use in drafting grant awards, to ensure all requirements are met. This bulletin also lists the grantor's and grantee's responsibilities in regards to recordkeeping, monitoring, and audit. The bulletin also requires the Department of Finance and Management to establish a Primary Pass-Through entity for those sub-grantees receiving grants from multiple State Departments. The role of the Primary Pass-Through Entity is to coordinate the review of audits and to follow up with the sub-grantee as needed. Section XI of the policy provides guidelines for pass-through entities to use when reviewing sub-grantees that do and do not require audits. For those grantees that do require an audit, an audit review checklist is available as a supplement to Bulletin 5. This checklist provides a detailed guide for primary pass-through entities to use when reviewing and audit report.

In addition to the policy, a Subrecipient Grant Tracking database was implemented to allow the State to track all federal grants awarded to subrecipients from all grantors in the State. Sub-grantees are required to submit a Certification of Audit Requirement form to the Department of Finance and Management at the end of their fiscal year, signifying whether or not an audit is required. If an audit is not required, they are also required to submit the Schedule of Federal Expenditures, which details all expenditures, by federal CFDA number. If an audit is required, they are required to submit a copy of the audit to their designated Primary Pass-Through Entity as soon as it is completed, but within 9 months of their year-end. The Primary Pass-Through Entity is required to review the audit and follow up on any findings. Documentation of this review is to be made in the VISION Subrecipient Grant Tracking system as soon as it is complete.

This policy became effective during state fiscal year 2004 and all grants written to subrecipients since September 1, 2003 are required to be entered into the VISION system. As of February 15, 2005, approximately 2,600 grants to over 800 subrecipients have been recorded in VISION. The Department of Finance and Management has designated an employee to review subrecipient data in the VISION system, to assign Primary Pass-Through Entities, and to assist departments as needed with the implementation of this policy. To date, the Department of Finance and Management has received the required forms from and designated a Primary Pass-Through Entity for approximately 400 subrecipients. Of those, approximately 100 require a single audit. Review of these audits is just beginning and will be ongoing

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Finding 2004-6, Continued

since grantees with a June 2004 fiscal year-end are required to submit their single audit reports by March 31, 2005. In addition, a new version of the VISION subrecipient system is scheduled to go live by February 28, 2005. This new version enhances the monitoring functionality of the system allowing for more complete documentation of subrecipient review. The Department of Finance and Management now believes that the State of Vermont now complies with OMB Circular A-133 and the first full year of subrecipient review should be complete during state fiscal year 2006.

Estimated Completion Date: Fiscal year 2006.

Contact Person: Bradley Ferland, Director of Financial Operations, Department of Finance & Management - 802-828 2336.

STATE OF VERMONT
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Finding 2004-7

Finance and Management

All Federal Programs

Requirement

The auditee shall: (a) Identify, in its accounts, all federal awards received and expended and the federal programs under which they were received. Federal program and award identification shall include, as applicable, the CFDA title and number, award number and year, name of the Federal agency, and name of the pass-through entity; and (d) Prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards in accordance with OMB Circular A-133 section .310.

Finding

During the our audit of the State of Vermont's federal expenditures, we noted that the State does not have a system in place for compiling the federal expenditure data needed to prepare the Schedule of Expenditures of Federal Awards (the "Schedule"). During our audit of the State's federal expenditures for the period ending June 30, 2004, we noted that the VISION system does not identify the following:

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

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

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

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

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Finding 2004-7, Continued

Management's Response

Steps to Correct:

In July of 2001 when the State of Vermont implemented VISION, it was Finance and Management's expectation that all departments would use the functionality available in VISION to record and track federal awards and the related expenditure of those awards. The functionality provided in VISION allows departments to track awards (funding sources) based on the Federal Aid Agency, the pass-through entity, the funding year and the CFDA number. Additionally, VISION allows departments to tie expenditures to these federal awards through the use of the Project/Grant chart-field. Full implementation of this functionality would allow for an accurate reconciliation of federal expenditures to financial statement amounts. It was not until the end of fiscal year 2002 that the Department of Finance and Management became aware that certain departments were not using this functionality to track the required information. By analyzing the information in VISION, Finance and Management has concluded that the functionality is working as designed for those departments that did use it as instructed. In fiscal year 2005 it is the goal of Finance and Management to continue obtaining a better understanding of why some departments chose not to use this functionality and where possible, move them toward doing so as soon as possible. In the meantime, the compilation of the data for the Schedule of Federal Awards will continue to be on a manual basis.

Scheduled Completion Date: Fiscal year 2006.

Contact Person: Bradley Ferland, Director of Financial Operations, Department of Finance & Management 802-828-2336.

STATE OF VERMONT
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Finding 2004 – 8

Agency of Transportation

Federal Transit Administration Cluster:

Capital Investment Grants - Capital Grants (CFDA #20.500)

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

Requirement

The Financial Status Report (FSR) (SF-269 (OMB No. 0348-0039) or SF-269A (OMB No. 0348-0038)). Recipients use the FSR to report the status of funds for all non-construction projects and for construction projects when the FSR is required in lieu of the SF-271.

Condition Found

During our testwork over federal reporting we noted that the data used to prepare the federal reports is obtained directly from the STARS system (the Agency's federally approved system for tracking project costs), which has not been reconciled to the VISION system (the State's centralized accounting system) in a timely manner, and therefore we were unable to test the completeness of the data.

This appears to be a systemic deficiency that could result in expenditures being reported that are not maintained within the State's centralized accounting system. This could affect the credibility of the data reported on the SF-269 report.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

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

STATE OF VERMONT
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Finding 2004 – 8, Continued

Management's Response

Steps to Correct:

The 2004 reconciliation between STARS and VISION was completed in November 2004. Adjusting entries have been entered in both systems which will help ensure that the federal reports are accurate. Our goal is to ensure that all reconciliations are complete and adjustments are entered in both systems before the subsequent month closes. Expenditure reconciliations between STARS and VISION for fiscal year 2005 as of March 2, 2005 are current with January 05 fiscal month activity.

Scheduled Completion Date: We consider the corrective action to be completed.

Contact Person: Raylene Jacobs, Chief Financial Officer, (802) 828-2834.

STATE OF VERMONT
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Finding 2004-9

Agency of Transportation

Federal Transit Administration Cluster:

Capital Investment Grants - Capital Grants (CFDA #20.500)
Formula Grants – Urbanized Area Formula Grants (CFDA #20.507)

Requirement

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

Condition Found

Payroll expenses are charged to federal programs during each pay cycle as a result of the project codes charged on employees' signed timesheets. During our testwork over the allowability of payroll charges made to the program, we noted that one out of ten payroll transactions selected for testwork represented a transfer made to the program through a journal entry. We were unable to determine whether the costs transferred were allowable. This appears to be an isolated instance.

Questioned Costs

\$5,596 – the total amount of payroll costs transferred which could not be traced to specific transactions.

Recommendation

We recommend that the Agency implement policies and procedures to mitigate the risk that the Agency processes and charges unallowable cost to the federal program.

Management's Response

Steps to Correct:

We agree. The Budget and Financial Operations Section will review the process used to document transfers to ensure that adjusting entries are properly authorized, can be traced to the original transaction and are sufficiently documented for records retention.

Scheduled Completion Date: June 30, 2006.

Contact Person: Raylene Jacobs, Chief Financial Officer (802) 828-2834.
Debbie Morse, Accountant D (802) 828-5715.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 – 10

Agency of Transportation

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

Requirement

Financial Status Report (FSR) (SF-269 (OMB No. 0348-0039) or SF-269A (OMB No. 0348-0038)). Recipients use the FSR to report the status of funds for all non-construction projects and for construction projects when the FSR is required in lieu of the SF-271.

Condition Found

During our testwork over federal reporting, we noted that the data used to prepare the federal reports is obtained directly from the STARS system (the Agency's federally approved system for tracking project costs), which has not been reconciled to the VISION system (the State's centralized accounting system) in a timely manner, and therefore we were unable to test the completeness of the data.

This appears to be a systemic deficiency that could result in expenditures being reported that are not maintained within the State's centralized accounting system. This could affect the credibility of the data reported on the SF-269 report.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

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

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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Finding 2004 – 10, Continued

Management's Response

Steps to Correct:

The 2004 reconciliation between STARS and VISION was completed in November 2004. Adjusting entries have been entered in both systems which will help ensure that the federal reports are accurate. Our goal is to ensure that all reconciliations are complete and adjustments are entered in both systems before the subsequent month closes. Expenditure reconciliations between STARS and VISION for fiscal year 2005 as of March 2, 2005 are current with January 2005 fiscal month activity.

Scheduled Completion Date: We consider the corrective action to be completed.

Contact Person: Raylene Jacobs, Chief Financial Officer, (802) 828-2834.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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Finding 2004 – 11

Department of Education

Improving Teacher Quality State Grants (CFDA #84.367)

Requirement

When entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the federal government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. When advance payment procedures are used, recipients must establish similar procedures for subrecipients.

Pass-through entities must establish reasonable procedures to ensure receipt of reports on subrecipients' cash balances and cash disbursements in sufficient time to enable the pass-through entities to submit complete and accurate cash transactions reports to the federal awarding agency or pass-through entity. Pass-through entities must monitor cash drawdowns by their subrecipients to assure that subrecipients conform substantially to the same standards of timing and amount as apply to the pass-through entity.

Condition Found

All Local Education Agencies (LEAs) are required to submit a final report to the Vermont Department of Education (the Department) that list all expenditures incurred by the LEA for the year. If the final report shows expenditures greater than receipts, than the Department will send the LEA the difference not to exceed the grant award. If the receipts are greater than the expenditures, than the LEA will be allowed to carryover the excess amount into the next fiscal year.

During our testwork over cash management, we noted that twenty-three out of the sixty-four LEA's had carryovers as of June 30, 2004. The excess funds on hand ranged from \$29 to \$59,559 with a total amount of \$374,995. The improper monitoring of cash balances on hand leads to ineffective cash management and interest expense owed to the federal government.

Questioned Costs

Not determinable.

Recommendation

We recommend the Department develop the necessary policies and procedures to monitor large cash carryovers. The Department should document their communication with the LEA noting the LEA explanations for the carryovers and the Department's response. Any carryovers with no justification should be returned to the Department.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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Finding 2004 – 11, Continued

Management's Response

Steps to Correct:

If the final report indicates a balance on hand at the end of the fiscal year, the accountant deducts the amount of the balance from the initial advance (15% of the new grant award) made to the subrecipient. If the final report indicating a large fund balance is received from the subrecipient after the initial payment has been sent, the adjustment would be made to their next grant payment.

The accounting unit reviews the quarterly reports received for the status of the funds, if the subrecipient is requesting a large amount of funds in comparison to their previous expenditures the accountant may call the subrecipient to verify the need for the funds. If the need for funds appears to be excessive the accountant may reduce the amount of the payments requested or may stop the final payment.

The accounting unit monitors closely the funding requests from subrecipients with a previous history of having large end of year balances. When their quarterly report requests a large amount of funds the accountant may contact the subrecipient to verify the need for those funds. If the need for funds appears to be excessive, the amount of the payments may be reduced or the final payment may be stopped

If the quarterly report indicates cash on hand equal to or greater than the request for funds for the first month, and or second month the payment is delayed until the following month. If the cash request for the next quarter is greater than \$15,000, the accountant pays the request in three separate monthly payments. If the cash request is less than \$15,000 the subrecipient will receive the entire amount.

The finding indicated twenty-three LEAs had carryovers as of June 30, 2004. Nineteen of the carryovers were fifteen percent or less of the total grant expenditures, thirteen of those carryovers were less than ten percent of the total grant expenditures.

The majority of the sub-grantees submitting quarterly reports with carryovers were contacted by the accountant to determine the status of the funds on hand and the need for additional funds.

Three of the carryover balances were created when a subrecipient's grant person left and the recruitment of a new person took some time resulting in wages planned in the grant remaining unspent.

NEW ACTION

The new state grant agreement implemented in February 2004 (which impacts all of our new grants issued in July of 2005) requires all grantees to submit quarterly reports for each quarter which will improve the accountant's ability to closely monitor the status of fund balances during the year.

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Finding 2004 – 11, Continued

The Department's newly created Federal Fiscal Services Team compares the expenditure information in the quarterly reports to the same information in the subrecipient records during on-site reviews which will increase reliability of the information submitted to the department.

While twenty-three LEAs had over estimated their expenses or had a loss of grant staff and thus ended with a surplus, thirty-two had underestimated their expenses and ended up with a deficit. The aggregate balance for all schools was a deficit. Amounts that were due any subrecipient based on their final report have been paid.

The third and final quarterly reports are closely monitored by the accounting staff to identify the possibility of a large cash balance and the accounting unit takes steps as indicted previously to eliminate those balances.

Scheduled Completion Date: June 30, 2005.

Contact Person: Peter Brownell, Director of Administration, (802) 828-0289.

STATE OF VERMONT
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Finding 2004 – 12

Department of Education

Grants for State Assessments and Related Activities (CFDA #84.369)

Requirement

Procurement

States, and governmental subrecipients of States, shall use the same State policies and procedures used for procurements from non-federal funds. They also shall ensure that every purchase order or other contract includes any clauses required by federal statutes and executive orders and their implementing regulations. Local governments and Indian tribal governments which are not subrecipients of States will use their own procurement procedures provided that they conform to applicable federal law and regulations and standards identified in the A-102 Common Rule.

Institutions of higher education, hospitals, and other non-profit organizations shall use procurement procedures that conform to applicable federal law and regulations and standards identified in OMB Circular A-110. All non-federal entities shall follow federal laws and implementing regulations applicable to procurements, as noted in federal agency implementation of the A-102 Common Rule and OMB Circular A-110.

Requirements for procurement are contained in the A-102 Common Rule (§____.36), OMB Circular A-110 (§____.40 through §____.48), federal awarding agency regulations, and the terms of the award. The specific references for the A-102 Common Rule and OMB Circular A-110, respectively are given for each procedure. (The first number listed refers to the A-102 Common Rule and the second refers to A-110.)

Suspension and Debarment

Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Under rules in effect prior to November 26, 2003, covered transactions included procurement contracts for goods or services equal to or in excess of \$100,000. A change in the nonprocurement suspension and debarment rule took effect on November 26, 2003. As of that date only those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria are considered “covered transactions.” §__.220 of the governmentwide nonprocurement debarment and suspension common rule contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients) are considered covered transactions—this was the case before November 26, 2003, and was not changed by the revised rules.

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Finding 2004 – 12, Continued

Under rules in effect prior to November 26, 2003, contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred. Effective November 26, 2003, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (§__.300). The information contained in the EPLS is available in printed and electronic formats. The printed version is published monthly. Copies may be obtained by purchasing a yearly subscription from the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, or by calling the Government Printing Office Inquiry and Order Desk at (202) 783-3238. The electronic version can be accessed on the Internet (<http://epls.arnet.gov>).

Requirements for suspension and debarment are contained in the federal agencies' codification of the governmentwide nonprocurement debarment and suspension common rule (see Appendix II for CFR cites), which implements Executive Orders 12549 and 12689, Debarment and Suspension, and the terms of the award.

Condition Found

The Department has entered into a series of contracts as part of the process for developing state assessments standards as required by the Elementary and Secondary Education Act (ESEA). During our testwork over the Department's contracting procedures, we noted the following:

- A. One out of five contracts selected for testwork had a contract amendment. In accordance with the State's contracting procedures, for all contracts less than \$75,000, when the amendment exceeds 25% of the original contract or \$2,500, both the approval of the Attorney General and the Secretary of Administration are required. In addition, the Department Head is also required to sign the amendment. The original contract amount was \$17,500 and the subsequent amendment was \$17,500, therefore the above approvals were required to be obtained on the amendment. However, only the Attorney General signed the amendment.
- B. Per review of the five contracts selected for testwork, the contracts did not include a certification that the contractor had not been suspended or debarred from receiving federal funding.

These appear to be isolated instances.

Questioned Costs

None noted.

STATE OF VERMONT
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Finding 2004 – 12, Continued

Recommendation

We recommend that the Department review its policies and procedures to ensure that all contracts are entered into in accordance with the State procurement policies.

Management's Response

Steps to Correct:

Condition A – We concur. The requirement was missed for this contract. The Department Manual for Contract Administration at section VI 4.c (3) now includes this requirement and all contract amendments are being checked to insure this requirement is met. Person responsible for the corrective action is the contracts administrator Peter Brownell.

Condition B – We concur. The standard contract format has been modified to include a clause certifying the vendor has not been suspended or debarred. A notice has been sent to all department contract administrators to insure the clause is inserted in all future contracts. The next update to the Department Manual for Contract Administration will include this provision. Additionally, each contractor is now checked against the GSA website to verify they are not listed as being debarred or suspended. A copy of this check will be included in the official contract folder.

Scheduled Completion Date: The above steps have already been implemented. No further action required.

Contact Person: Peter Brownell, Director of Administration, (802) 828-0289.

STATE OF VERMONT
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Finding 2004 – 13

Agency of Human Services

**State Administrative Matching Grants for Food Stamp Program (CFDA #10.561)
Temporary Assistance for Needy Families (CFDA #93.558)**

Requirement

A pass-through entity is responsible for:

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

Condition Found

The Department has approximately sixty-five different agencies that provide various Reach Up services in connection with the Welfare-to-Work initiative. The agencies provide Reach Up services for both Temporary Assistance for Needy Families (TANF) and Food Stamp recipients and therefore most agencies receive federal funding under both programs to help pay for their activities.

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

- A. The Department performs periodic site visits to ensure that all subrecipients are providing services in accordance with the signed grant agreement. We noted that a site visit was not conducted for one out of the fifteen grants selected.

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Finding 2004 – 13, Continued

- B. For eleven of the fifteen grants selected for testwork, we noted that the Department did not obtain or review the subrecipient's audit reports as required under Circular OMB A-133.
- C. One out of the fifteen grants selected for testwork was entered into with another Department within the same Agency. During our testwork, we noted that the Department did not monitor the receiving Department to ensure the services performed were in accordance with the agreement that was entered into.

The above noted compliance deficiencies appear to be systemic. Ineffective policies and procedures for monitoring subrecipient grants impacts the Department's ability to ensure that subrecipients are utilizing the federal funding awarded for allowable activities.

This finding is considered to be a material weakness.

Questioned Costs

None noted.

Recommendation

We recommend that the Department review its policies and procedures to ensure that a uniform system is in place to monitor all subrecipients. Such procedures should include obtaining and reviewing financial statements and A-133 audit reports on a timely basis.

Management's Response

Steps to Correct:

The Agency of Human Resources has been authorized to reorganize financial operations. This reorganization began this year and will provide additional resources to address the subrecipient monitoring issues. The Agency will obtain and review financial statements and A-133 Audit reports for all subrecipients

Scheduled Completion Date: June 30, 2006.

Contact Person: David Cohen, Department of Children and Families, (802) 241-1270.

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Finding 2004 – 14

Agency of Human Services

Medical Assistance Program (CFDA #93.778)

Requirement

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

Condition Found

Under the Medicaid program, the State Plan documents the criteria to be used for determining an applicant's eligibility for standard program services. In addition, the State Plan also provides for case management services and specialized waiver services to be provided to individuals as an option for medical assistance. In order to receive case management and specialized waiver services, the participant must be Medicaid-eligible, and oftentimes, various additional eligibility forms are required to be filed within the Department providing the service in order to verify that the participant meets the criteria for receiving benefits.

During our testwork over the eligibility files, we noted the following:

- A. For three out of seventy files selected for testwork, the district offices were unable to provide us with the recipients' files and as a result we were unable to determine if the recipient was eligible for program benefits.
- B. For one out of the seventy files selected for testwork, the participant's date of birth in the ACCESS system, the State's eligibility determination system, did not agree to the information contained in the file. In addition, for this participant, the nursing home provider listed in the participant's file did not agree to the provider name paid.
- C. For one out of the seventy files selected for testwork, the category service code per the ACCESS system did not agree to the category of service code per the MMIS system.
- D. For one out of five participants selected that received services under the Mental Health CRT program, the participant's file did not contain a Plan of Care that had been properly signed by the Department.

STATE OF VERMONT
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Finding 2004 – 14, Continued

The above exceptions appear to be isolated. Ineffective procedures for documenting a participant's eligibility for programmatic services could result in ineligible participants receiving care under the program and the over-claiming of allowable federal expenditures.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review its policies and procedures to help ensure that all the necessary information is maintained within the participant's file that documents the participant's eligibility to receive services under the Medicaid program.

Management's Response

Steps to Correct:

- A. The Department will endeavor to improve procedures such that the Department will be able to produce the requisite files at the time of the audit.
- B. The Department will endeavor to ensure that all data is correct in the file and matches that in the mechanized system.
- C. The Department will endeavor to ensure that all data is correct in the file and matches that in the mechanized system.

Scheduled Completion Date: June 30, 2005.

Contacts: Items A-C - David Cohen, Department of Children and Families, (802) 241-1270.

STATE OF VERMONT
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Finding 2004 – 15

Agency of Human Services

Department of Education

Medical Assistance Program (CFDA #93.778)

Requirement

Section 1903(c) of the Act requires the Secretary to pay for services furnished to children with disabilities, covered under the Individuals with Disabilities Education Act, and supported by a Child's plan or a family plan. A comprehensive discussion of Section 1903(c) and other school-based policies is included in the CMS guidance entitled "Medicaid and School Health: A Technical Assistance Guide" (CMS Technical Assistance Guide), dated August 1997.

To obtain reimbursement for school-based services, a provider must have an agreement with the State delineating the responsibilities of all parties. In addition, the State defines and explains its school-based service policies and procedures through periodic provider notices and meetings with local provider personnel. For program guidance during the audit period, local supervisory unions relied on these notices and the "Dr. Dynasaur/Medicaid School Health Related Services Program" manual, which was revised in September 2001. The manual provided a compilation of guidelines, including those related to student eligibility and services eligible for reimbursement, requirements for completing a child's plan, and instructions for billing for services.

Condition Found

CMS conducted a review over the Vermont Medicaid School-Based Services for claims that were paid during the period of October 2001 through September 2002. During their review, CMS selected a statistical sample of 1,087 claims paid for the period October 2001 through September 2002 and found that the State claimed unallowable Federal funding in the amount of \$105,009 for school-based services for 240 out of the 1,087 claims. Specifically, the following was noted:

- \$39,522 for 109 claims for services not specified in the child's plan,
- \$12,744 for 42 claims for services not billed at the appropriate level of reimbursement,
- \$21,012 for 42 claims for unallowable services, and
- \$31,731 for 47 claims with clerical errors.

STATE OF VERMONT
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Finding 2004 – 15, Continued

These errors occurred because the State and the local supervisory unions did not have procedures in place and controls in place to ensure that services billed were accurate and in accordance with services in the child's plan. Based on the error rate calculated, CMS estimated that the State received unallowable federal reimbursement of at least \$1,463,395 and requested that this amount be refunded.

Questioned Costs

\$1,463,395

Recommendations

We recommend that the Agency implement the necessary policies and procedures to help ensure compliance with federal requirements. This would include instructing the supervisory unions to review school-based service billings before submitting them for reimbursement to ensure that the services billed are specified in the child's plan and accurately reflect the type and amount of services provided, and to establish periodic post-payment reviews to ensure that claims for services are in accordance with federal regulations and State policies and procedures.

Management's Response

Steps to Correct:

The Vermont Department of Education disagrees with the errors found during the review conducted by CMS. Nicole Tousignant, Medicaid Unit Coordinator from this Department has been working with CMS to resolve their issues.

Scheduled Completion Date: This matter is considered to be ongoing. No definite completion date can be identified at this point.

Contact: Peter Brownell, Director of Administration, (802) 828-0289.

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Finding 2004 – 16

Agency of Human Services

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

Requirement

Matching or cost sharing includes requirements to provide contributions (usually non-federal) of a specified amount or percentage to match federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in kind contributions).

The specific requirements for matching, level of effort, and earmarking are unique to each federal program and are found in the laws, regulations, and the provisions of contract or grant agreements pertaining to the program.

However, for matching, the A-102 Common Rule ('____.24) and OMB Circular A-110 ('____.23) provide detailed criteria for acceptable costs and contributions. The following is a list of the basic criteria for acceptable matching:

- Are verifiable from the non-federal entity's records.
- Are not included as contributions for any other federally-assisted project or program, unless specifically allowed by federal program laws and regulations.
- Are necessary and reasonable for proper and efficient accomplishment of project or program objectives.
- Are allowed under the applicable cost principles.
- Are not paid by the federal government under another award, except where authorized by Federal statute to be allowable for cost sharing or matching.
- Are provided for in the approved budget when required by the federal awarding agency.
- Conform to other applicable provisions of the A-102 Common Rule and OMB Circular.
- A-110 and the laws, regulations, and provisions of contract or grant agreements applicable to the program.

Condition Found

The Department operates nine grants as part of the Centers for Disease Control and Prevention – Investigations and Technical Assistance. Of the four grants selected for testwork, the Tobacco Control Grant and the Cancer Prevention and Control Grant had matching requirements that needed to be met. During our testwork over the matching process, we noted the following:

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Finding 2004 – 16, Continued

1. The Tobacco Control Grant has a one-to-one match requirement meaning that for each federal dollar spent the state must match one dollar in nonfederal expenditures. The Department meets its matching requirement through the use of allocated Tobacco Settlement Funds that are budgeted to the Department on an annual basis. At the end of the grant period, the program specialist prepares a spreadsheet that compares the total amount of Tobacco Settlement Funds expended for the year to the amount of federal funds expended for the Tobacco Control Grant to ensure that the necessary match has been met. During our review of the matching process, we noted that the Department does not report the match on the Financial Status Report that is filed on an annual basis. As such we could not determine what the actual match was that the Department would have included.
2. The Cancer Prevention and Control Grant has a three-to-one matching requirement, meaning that for every three federal dollars spent, the Department must spend one dollar. The Department meets its required match through a variety of external sources. During our testwork over the matching process, we noted the following:
 - A. The Department met \$382,964 of its matching requirement through contributed physician services for cancer screenings through the LadiesFirst Program. Under this program, the Department has agreed to reimburse the provider the Medicare “B” reimbursement rates. The provider agrees not to bill the patient for any additional amount. The portion that is left “unpaid” is considered to be a contributed service by the provider and is included by the Department in the calculation of its matching requirement. We selected thirty physician invoices that were utilized in the matching process and noted the following:
 - Six out of thirty invoices selected for testwork were for patients that had a private insurance carrier. The provider initially billed the private insurance carrier for the screening and then billed the Department for the remaining difference, resulting in a payment less than what the full Medicare “B” rate would have been. In these instances, the Department could not provide the explanation of benefits that was received and therefore we could not determine whether the Department had properly accounted for this match.
 - The Department requires that providers sign a provider agreement with the Cancer Prevention and Control program to authorize the program to utilize the unbilled expenses as contributed services towards the Department’s match requirement. Two out of thirty provider agreements could not be located and therefore we could not determine whether or not the provider had authorized the Department to utilize the unbilled expense as a contributed service.
 - One out of thirty invoices selected for testwork was not paid correctly based on the Medicare “B” rate. The Department paid \$636 and per the Medicare “B” rate schedule they should have paid \$582.

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Finding 2004 – 16, Continued

- B. An additional \$97,708 of the required match was provided through the Cancer Registry Service. The Cancer Registry Service is a databank used by the Department to track medical and state-wide health trends concerning cancer hospitals are required to report incidence of cancer to the Cancer Registry as required by the Vermont Cancer Reporting Law. In 1998, the Department determined that the cost of each abstract reported by the hospital (with the abstract containing the cancer information) was \$41.42. Each year, the Department multiplies the total number of abstracts received by the rate of \$41.42 to determine the hospital's contributory service towards the Department's matching requirement. The number of abstracts is obtained from the Department's registry system, and can be uploaded to provide support the transaction total. During our testwork over these matching funds, the Department was unable to provide any documentation to support how the cost of \$41.42 was derived nor that the estimate had been reviewed to ensure that it was still valid for the year ending June 30, 2004. As a result, we are unable to determine the reasonableness of this matching source of funds.

The deficiencies noted above over the tracking of matching funds appear to be systemic. The lack of procedures in place for monitoring and reporting matching funds could result in the Department not providing the necessary matching funds to support the federal funds expended and drawn down in a given year. The effect of not providing the proper matching funds is that federal funds would be drawn down too soon, impacting the Department's compliance with cash management requirements.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

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

Management's Response

Steps to Correct:

- 1) The Department will report the required match expenditures on future Financial Status Reports for the Tobacco Control grant. For the reporting period in question, our match expenditures would have been sufficient to meet federal requirements.

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Finding 2004 – 16, Continued

Management's Response, Continued

2) A. In relation to the thirty physician invoices in the Cancer Prevention and Control program:

- We agree that the explanation of benefits document (EOB) is missing for six out of thirty invoices. The Department has since changed its procedures. In the past, the EOB was generally sent to the business office with the invoice. Now the EOB is maintained in the program files, minimizing the chances of the EOB going astray.
- We agree that two of the thirty agreements between providers and the Cancer Prevention and Control program could not be located. The Department has initiated plans to change its procedures for signing and filing of the agreements. When EDS takes over responsibility for processing payments, EDS will require that providers sign and return the agreement as part of the process of enrolling as an EDS provider. Under this arrangement, providers will have an incentive to complete the agreement since enrolling as an EDS provider is a requirement for obtaining payments.
- The Department agrees that there is no documentation to support its payment of one invoice in an amount that was \$53.85 higher than the Medicare "B" rate.

B. The Department has updated the data and described the procedures used to determine the match available through reporting the cost of hospital abstracts. The procedure used was the one proposed as a corrective action in response to a similar finding in the FY03 audit. This was completed November 1, 2004, subsequent to the audit period. The current weighted average cost of abstracts is now reported as \$70.77 rather than \$41.42.

Scheduled Completion Date: June 30, 2005.

Contact Person: Patrick Burke, Federal Grants Manager, Department of Health, (802) 863-7257.

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Finding 2004 – 17

Agency of Human Services

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

Requirement

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

Condition Found

The Department requires that all grant programs requesting a payment for services or goods to complete and sign a coding/cover sheet in order for a payment to be paid, and indicate the account code to be charged, along with the fund, department identification number, program code and the project grant code. The Program Director/Program Chief for each grant is responsible for reviewing the invoice and requesting the coding/cover sheet to be completed if the costs are appropriate and allowable under the grant. Once the coding/cover sheet has been completed, it is required to be signed indicating that the cost has been approved prior to being sent to the Business Office for payment processing within the VISION system.

During our testwork over non-personal expenditures, we noted the following:

- A. One out of the thirty-two invoices selected for testwork was not properly approved by an individual in the program. Per review of the invoices, the amounts charged appeared to be allowable under Circular A-87 and the Federal grant agreement.
- B. One out of the thirty-two invoices selected for testwork were costs paid to an insurance carrier. As part of the Cancer and Prevention and Control Program, the Department hired a medical expert to provide consultation on breast and cervical cancer screening, professional education, quality insurance and case management services. Per review of the invoice, we noted that the insurance costs related to malpractice liability insurance that was paid on behalf of the medical expert that had been hired as a subcontractor. Per review of OMB Circular A-87, Attachment B, Section 22.h, we noted that costs of commercial insurance on behalf of the State is an allowable cost. However, the cost of malpractice insurance paid on behalf of a third party outside of the State does not appear to meet the definition of an allowable cost under this section. Based on this, it appears that the cost of the malpractice insurance paid is not an allowable cost and should not have been charged to the federal program.
- C. One out of the thirty-two invoices selected for testwork could not be located.

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Finding 2004 – 17, Continued

The above instances appear to be isolated. The lack of required approvals and supporting documentation for amounts paid could lead to unallowable activities being charged to the federal program.

Questioned Costs

\$17,616 – This questioned cost is composed of \$2,960 in insurance costs paid under bullet point B above and \$14,656 for the amount paid for the invoice that could not be located in bullet point C above.

Recommendation

We recommend that the Department implement the necessary policies and procedures to ensure that costs charged to federal programs are in compliance with OMB Circular A-87. In addition, we recommend the Department review its procedures for approving and reviewing all invoices that are paid to ensure that all payments are properly supported.

Management's Response

Steps to Correct:

- A. The invoice which lacked the usual approval was a purchasing card payment. Purchasing card payment documentation is maintained separately from all other records. In this case, the card is used by Carolyn Antone, the accounts payable and purchasing supervisor. When making the payment, she is either given a document with written approvals (e.g., a requisition) or she uses the card to make a purchase based on a face-to-face discussion with the responsible program person. We are open to suggestions about more appropriate documentation for these purchases. If no suggestions are offered, we will develop documentation procedures in fiscal year 2005.
- B. The Department did make a payment for medical malpractice insurance, as reported in the finding. However, our understanding is that the A-87 citation refers to a particular and unusual type of insurance coverage that protects against costs involved in the recall of defective products, which is a different class of insurance than standard malpractice liability, and is specifically excluded from commercial general liability policies. The Department believes that medical malpractice insurance is a prudent expenditure and that A-87 did not intend to prohibit malpractice payments.

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Finding 2004 – 17, Continued

Management's Response, Continued

- C. There were many invoices involved in the one journal entry that was cited. The journal entry was requested by program staff to re-classify earlier expenditures. The program staff provided a certain amount of back-up information, but not the actual invoices. Of the \$14,655.62 involved in the transfer, we have subsequently been able to identify 29 invoices amounting to \$8,359.11. In the future, we will require more complete documentation from program staff when making transfers of this nature.

Scheduled Completion Date: June 30, 2005.

Contact Person: Patrick Burke, Federal Grants Administrator, Department of Health, (802) 863-7257.

STATE OF VERMONT
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Finding 2004 – 18

Agency of Human Services

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

Requirement

To provide reasonable assurance that eligibility requirements are met based on specific criteria for determining the individuals can participate in the program and the amounts for which they qualify.

Condition Found

The Breast and Cervical Cancer Screening grant is a specialized program that is funded through the use of funds from the Centers for Disease Control and Prevention - Investigations and Technical Assistance program. The Breast and Cervical Cancer Screening grant agreement allows for the program to provide screenings for women who are among the lower income group. During our review of this process, we noted that the Department could not readily determine what portion of the Breast and Cervical Cancer Screening grant related to the screening and prevention costs associated with payments made for individuals who were participants in the program and as such we were identify unable to the dollar value associated with this requirement to determine if this requirement was direct and material. This appears to be a systemic compliance deficiency and could lead to ineligible participants receiving services under the program, resulting in unallowable costs charged to the program.

This finding is considered to be a material weakness.

Questioned Costs

Not Determinable.

Recommendation

We recommend that the Department implement the necessary policies and procedures to adequately monitor the screening and prevention costs of this grant to ensure only eligible participants receive services under the federal program.

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Finding 2004 – 18, Continued

Management's Response

Steps to Correct:

We agree that it is not possible to determine the amount expended on a person-by-person basis. The VISION system is not designed to track expenditures by individual clients. Before the end of fiscal year 2005, the Department intends to shift away from paying for screenings through the VISION system. Instead, the payments will be made by EDS on behalf of the Breast and Cervical Cancer Screening program. We hope that the EDS reporting system will allow us to track expenditures on a person-by-person basis.

Scheduled Completion Date: June 30, 2006.

Contact Person: Patrick Burke, Federal Grants Administrator, Department of Health, (802) 863-7257.

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Finding 2004 – 19

Agency of Human Services

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

Requirement

A pass-through entity is responsible for:

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

Condition Found

The Department grants funds to various organizations to support programs as designed by the federal grant award. All subrecipients are required to sign a grant agreement that outlines what the funding is to be used for, the total amount of funds being awarded and specific program requirements that must be met, such as the submission of invoices, financial or programmatic reports. During our testwork over subrecipient monitoring, we selected twenty-five grantees and noted the following:

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Finding 2004 – 19, Continued

- A. There were two instances out of twenty-five where there was not a formal grant agreement. This was a result of a transfer that occurred between another State Agency.
- B. There were four instances out of twenty-five where the activities approved under the grant agreement appeared to be more related to contract services than grant services.
- C. There was one instance out of twenty-five where the grant was improperly coded per the coding/cover sheet and the expenditures were charged to the wrong program that is included as part of the Centers for Disease Control and Prevention - Investigations and Technical Assistance.
- D. There were seven instances out of twenty-five where the grant award document did not contain the proper CFDA number for the current year but rather contained the CFDA number for the prior year. We noted that the award number included on the grant award document did represent the current year award number.
- E. There was one instance out of twenty-five where the coding/coversheet did not contain proper approval.
- F. Included in the signed grant agreement is a requirement that subrecipients have an A-133 audit if they expend more than \$300,000 in federal funds. During our review of the subrecipient files we noted that audit reports were not obtained. Although the grant awards are typically below the \$300,000 threshold requiring an A-133 audit, the Department has no mechanism in place to determine whether the subrecipient received awards from other sources that would have required them to have a single audit.
- G. Various progress and year-end financial and programmatic reports are required to be submitted by the grantees. We noted that ten out of the twenty-five subrecipients did not submit the documentation as required by the grant award document and the Department did not follow-up regarding this documentation.
- H. Various progress and year-end financial and programmatic reports are required to be submitted by the grantees. During our review of the programs we noted that eight out of the twenty-five subrecipients did submit the documentation as required by the grant award document, and there was no formal documentation that the Department had reviewed or approved the reports that were received. In addition, some of the reports do not include documentation to determine whether the funds were spent on allowable activities. Overall, the Department does not appear to have sufficient mechanisms in place to ensure that awarded funds are spent on allowable activities in accordance with the grant agreements.

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Finding 2004 – 19, Continued

The above instances appear to be systemic compliance deficiencies. The lack of procedures to ensure that subrecipient grants are properly monitored increases the risks that federal funding could be spent by the subrecipient on unapproved and unallowable activities.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendation

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

Management's Response

Steps to Correct:

- A. As MOU which cites the required A-133 information is standard procedure when making payment in support of another State Agency's program. This information was not included in the two payments referenced in the finding. At the time, the Department had only recently initiated this procedure; we expect that future payments will be accompanied by adequate information.
- B. Of the four grants noted which appear to more like contracts, two (#3631, 3531) were payments giving financial support of conferences largely designed, organized and implemented by the grantee, and a grant payment was probably appropriate. The other two (#3495, 3665) were not the usual type of support to a grantee, as noted in the finding. The Department intends to review alternatives other than grant payments in such situations.
- C. We agree that there was one instance where a grant payment was ultimately charged to a program other than that indicated on the coding sheet. However, the particular payment in question is eligible under both the original program indicated on the coding sheet and the program that was ultimately charged.
- D. We agree that there were instances where the CFDA number from the prior year was used incorrectly. We will now be more alert to changes in CFDA numbers. Prior to this event, there was virtually no situation in which the CFDA number had changed from one year to the next.

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Finding 2004 – 19, Continued

Management's Response, Continued

- E. We agree that there was one instance of the “approval” section on the coding sheet not being filled out. The label of this section is misleading. The actual approval of the invoice for payment is done by a program person, but not in this section. This section allowed space for initials of the Accounts Payable supervisor, which was only intended to indicate that she has deemed the data entry to be correct, not that she had approved of the payment. We revised the coding form effective July 1, 2004 to make this approval process clearer. This section now reads: “A/P Sup Review for Data Entry.”
- F. We agree that the Department has no mechanisms in place to determine whether subrecipients receive funds from other entities that would put them over the threshold amount for A-133 audits. Aside from the question of whether A-133 requires us to take that action, or whether it simply requires us to give the grantee certain specified data and to review audits if they are submitted, the procedures in Vermont’s Bulletin 5 specify that the Finance Department has that responsibility for the State. For most of the period under audit, the Finance Department was not staffed to implement this function. They now have filled a position to implement those procedures.
- G. The Department agrees that lack of subgrantee financial and program reports is a problem. The Department initiated corrective action related to this finding in FY04. Policies and procedures were drafted to address the need to obtain reports from subrecipients, to follow up when the reports are not submitted and the need to document Health Department review of the reports when they are received. These new policies were developed with broad input from all divisions and were instituted in a half-day training session for all affected staff in May 2004. They were effective July 1, 2004, after the end of this audit period.
- H. The Department agrees that lack of documentation of review of subgrantee reports is a problem, as is the existence of reports that are unable to demonstrate that funds were spent on allowable activities. The Department has initiated a corrective action plan, as described above, and we expect to see improvement in fiscal year 2005.

Scheduled Completion Date: June 30, 2005.

Contact Person: Patrick Burke, Federal Grants Administrator, Department of Health, (802) 863-7257.

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Finding 2004 – 20

Agency of Human Services

Immunization Grants (CFDA #93.268)

Requirement

A pass-through entity is responsible for:

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

Monitoring For-Profit Subrecipients

Significant portions for this program are passed through from the pass-through entity (usually the State) to for-profit subrecipients in the form of vaccine. Since OMB Circular A-133 does not apply to for-profit subrecipients, the pass-through entity is responsible for establishing requirements as necessary to ensure compliance by for-profit subrecipients (OMB Circular A-133 ____,210(e)) and for monitoring and reporting program performance by for-profit subrecipients (A-102 Common Rule ' ____.40(a)). The compliance requirements applicable to for-profit subrecipients under this program are:

- a. Eligibility requirements in "III.E.1 Eligibility for Individuals"

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Finding 2004 – 20, Continued

- b. Control of vaccine in "III.N.1 Control, Accountability, and Safeguarding of Vaccine"
- c. Record keeping in "III.E.2 Record of Immunization"

Condition Found

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

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

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

- A. The Department does not distinguish between for profit and non-profit health care providers. As a result, the Department has no mechanisms in place to determine which providers are having an audit performed in accordance with OMB Circular A-133. In addition, the Department does not request, receive or review any audited financial statements or single audit reports from any provider currently receiving vaccines under the Immunization Grant Program.
- B. Providers are required to report to the Department the dates in which vaccines were administered to patients during the prior month as well as the age category that the patient fell in when placing an order for vaccines with the District Office. While this data is collected, the Department has no mechanisms in place to determine whether or not the data submitted by the provider is correct and complete. In addition, per discussion with the Department, various providers often do not complete the form correctly and show all doses being administered to the same age group all on the same day.

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Finding 2004 – 20, Continued

- C. The Department acts as the centralized depot for all vaccines for enrolled providers in the State of Vermont, in that those providers are also able to obtain all their required vaccines from the State of Vermont in addition to the VFC program. Vaccines are distributed to each provider based on lot number. The Department does not have controls in place to ensure that the vaccines that are distributed to providers under the VFC program were indeed administered to VFC eligible individuals.
- D. The Department conducts on-site reviews of providers during the year. At the end of the review, the Department prepares a written report that is sent to the providers to discuss the results of the on-site review and any corrective action that is required. Of the reviews selected for testwork, two of the twenty-one providers and four of the four district offices did not receive a written report.
- E. As part of the VFC program, there are certain eligibility requirements that must be met in order for an individual to receive a vaccine from a provider. The questionnaire that is utilized by the Department inquires whether or not the provider monitors VFC eligibility. The Department has not made this a requirement for providers to verify an individual's eligibility and has not routinely monitored this requirement. During our testwork over the monitoring process, we noted that the reviewer indicated for all twenty-one providers selected for testwork that the provider did not monitor for VFC eligibility. The Department did not require corrective action from the providers. For all four district offices selected for testwork, the reviewer indicated that the district offices screened for VFC eligibility, however the reviewer did not review any files to substantiate this claim.
- F. As part of the on-site review, the Department conducts a chart review of selected patients to ensure that the proper identifying information has been recorded in regards to the vaccine such as date administered and lot number. We noted for twelve of the fifteen providers that the reviewer did not include the names of the children that were selected for the VFC eligibility review and/or the information did not contain enough to know what the reviewer had looked at during their file review (i.e. patient identifier, date of birth, vaccine product, date of administration, manufacture, lot #, vaccine administration initials, VIS publication date, and VFC screening). In addition, the reviewer did not include a discussion of the chart reviews in the written documentation of the site visit.
- G. As part of the on-site review, the Department conducts a chart review of selected patients to ensure that the proper identifying information has been recorded in regards to the vaccine such as date administered and lot number. We noted nine of the fifteen providers that the reviewer did include the children that were selected for the VFC eligibility review as evidence of either the child's full names or their initials. However, there were deficiencies found in the review of these files. For example: for all children reviewed, it was noted that the child was not screened for VFC eligibility by the provider. The reviewer did not include these deficiencies in the written documentation of the site visit.

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Finding 2004 – 20, Continued

- H. As a result of the Department's on-site reviews, several areas of non-compliance or concerns were noted on the questionnaire. Of the reviews selected for testwork, nine of the twenty-one provider site reviews had received a notice that they were lacking vaccine management protocols; however, the Department did not request a corrective action plan.
- I. As a result of the Department's on-site reviews, one of the twenty-one provider site reviews noted that the provider had swapped privately supplied vaccines with the Department vaccines on hand. The provider had intentions of replacing these vaccines upon receipt of the private vaccines. The state did not know how to make the provider pay for the waste of over 100 vaccines that were administered for non-eligible children and as such asked that the provider indicate that these were wasted vaccines.
- J. As a result of the Department's on-site reviews, twenty of the twenty-one provider site reviewed noted that the practice does not have the necessary procedures in place for documenting immunization records, such as including the date and lot number of the vaccine administered. We noted that the chart review questions regarding the vaccine product, date administered, manufacture, lot number, name of person administering vaccine and the VIS publication date were often found to be missed. In most instances, it was the name of the person administering vaccine, manufacturer, lot number and the VIS publication date. The Department did not include these deficiencies on the report issued to the provider.
- K. The Department requires the providers to submit Vaccine Accountability Sheets which details the number of Vaccines distributed (i.e., Hep B, Influenza, etc.) by age, vaccine lot numbers, number of wasted vaccines, etc. Of the two months selected for testwork for each provider, one out of twenty-one provider Vaccine Accountability Sheets could not be located and per the VACMAN inventory tracking system this provider had accounted for their vaccines during that particular month. In addition, of the two months selected for testwork for each provider, one out of twenty-one provider Vaccine Accountability sheets did not agree to VACMAN inventory tracking system.

The above instances noted appear to be systemic compliance deficiencies. The lack of procedures in place to monitor providers increases the risk that the Department would not be able to identify if vaccines are being provided to ineligible children, resulting in an unallowable cost.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

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Finding 2004 – 20, Continued

Recommendations

We recommend that the Department implement the necessary policies and procedures to ensure that providers are monitored in accordance with federal requirements. This includes ensuring that all providers are properly submitting annual reports that are reviewed by the Department, properly documenting the results of on-site monitoring visits and issuing a management decision on the visits timely to the provider.

Management's Response

Steps to Correct:

- A. In response to a similar finding in last year's audit, the Department proposed "Check boxes will be added to enrollment forms for practices to self-identify as for profit or non-profit. The Department will request audits from providers as required." We acknowledge that we failed to take this action in time to change our practice in the period audited. We will take this corrective action this year.
- B. Providers are required to report to the Department the antigen administered and the patient age for all vaccines administered during the previous month. Additionally they are required to report their current inventory. This information must be submitted to District Office when placing a new order for vaccines. Any reporting discrepancies are resolved at either the District level or the Immunization Program level with the provider, before additional vaccine inventory is released. During VFC site visits providers are asked to demonstrate their method of tracking vaccine usage on the Vaccine Accountability Form.
- C. We have instituted an education program for providers to verify that vaccines distributed to providers under the VFC program are administered to VFC eligibles.
- D. We will continue to provide written reports to providers and will also provide written reports to the district offices.
- E. We have made it a requirement that all providers screen children for VFC eligibility. This screening is monitored through VFC site visits by Immunization Program staff. We will require corrective actions when this requirement is not met and will conduct follow-up site visits to ensure that corrective actions are undertaken.
- F. We will document in writing all issues of non-compliance discovered in our reviews of selected patient files.
- G. A change in the reporting process documents all of the issues identified during the site visit.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 – 20, Continued

Management's Response, Continued

- H. Since January 2004 vaccine management protocols are required. If a practice lacks one, a corrective action plan with a timeline for implementation is established.
- I. We acknowledge that the reviewer should have cited the provider for using the vaccines inappropriately and required as a corrective action that the vaccines be replaced, which ultimately was done.
- J. Provider practice sites have been given written and oral instructions as to the elements that must be recorded for each vaccination administered, a new form has been provided to assist in the process, and charts are audited at site visits for conformity to the standards required. The most common element previously missing was the recording of the VIS publication date. We agree that these issues should be reported to the provider in writing.
- K. We have instituted a reconciliation process and agree we should meet the standard.
- L. The reconciliation process in (K) above applies to this finding. We should meet the standard.

Scheduled Completion Date: June 30, 2005.

Contact Person: Patrick Burke, Federal Grants Administrator, Department of Health, (802) 863-7257.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 – 21

Agency of Human Services

Immunization Grants (CFDA #93.268)

Requirement

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

Condition Found

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

During our testwork over the procedures in place to safeguard vaccines, we noted the following:

- A. The Department does not monitor to ensure that its District Offices store VFC and 317 funded vaccines separately from vaccines funded through state funds. As such, there are no mechanisms in place to ensure that the vaccines received by the Centers for Disease Control (CDC) as part of the Immunization Grants Program were properly distributed as such to the provider.
- B. While it appears based on the questionnaires completed during the Department's on site review that the provider stores state supplied vaccines separately from privately purchased vaccines, the State does not monitor to ensure that the provider stores VFC and 317 funded vaccines separately from other vaccines provided by the State. In addition, the Department does not ensure that the lot number administered by the provider agrees to the lot number shipped to the provider by the District Office.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 – 21, Continued

C. The Department completes a monthly inventory reconciliation of the vaccine inventory on hand to the balance as stated in the VACMAN system, the inventory tracking system provided by the Centers for Disease Control (CDC). The Department notifies the CDC that the inventory reconciliation has been completed and provides CDC with this inventory on hand information. Up until January 2004, the Department did not maintain any formal documentation to substantiate their inventory claim. In January 2004, they began to keep a hard copy of the VACMAN inventory report. However, there was no supporting documentation for any discrepancies between the VACMAN inventory report and the actual inventory counts, nor did the Department maintain the e-mail notification to CDC regarding the inventory claim for that month. As such, there are no mechanisms in place to allow us to verify that a monthly reconciliation of the inventory was being performed for the first half of the State Fiscal Year 2004 and that any adjustments made to the inventory balance were proper.

The instances noted above appear to be systemic compliance deficiencies. The lack of procedures over the safeguarding of vaccines could result in vaccines being utilized at both the provider and District Office locations for participants not eligible to receive vaccines under the federal program.

This finding is considered to be a material weakness.

Questioned Costs

Not determinable.

Recommendations

We recommend that the Department implement the necessary policies and procedures to ensure that all federally funded vaccines are properly safeguarded at both the Department, District Office and provider sites.

Management's Response

Steps to Correct:

We believe that we do store separately vaccines purchased with federal funds versus state purchased vaccines. The state purchased vaccines are of a different vaccine type.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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Finding 2004 – 21, Continued

Management's Response, Continued

Lot numbers of vaccines administered are recorded on the accountability sheets and tracked in the computer system by provider site and the lot numbers distributed to them. The provider records the lot number administered in the patient's chart and in the Vermont Immunization Registry (in practices where the registry has been implemented.). In January 2004 this process changed to maintain paper copies of the email notification to CDC of the actual inventory counts. We will keep a paper copy of the monthly email submission to CDC of our VACMAN inventory report. We will also keep a paper copy of the document showing the monthly adjustments to the inventory report.

Scheduled Completion Date: June 30, 2005.

Contact Person: Patrick Burke, Federal Grants Administrator, Department of Health, (802) 863-7257.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 – 22

Agency of Human Services

Immunization Grants (CFDA #93.268)

Requirement

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

Condition Found

The Department requires that all grant programs requesting a payment for services or goods to complete and sign a coding/cover sheet in order for a payment to be paid, and indicate the account code to be charged, along with the fund, department identification number, program code and the project grant code. The Program Director/Program Chief for each grant is responsible for reviewing the invoice and requesting the coding/cover sheet to be completed if the costs are appropriate and allowable under the grant. Once the coding/cover sheet has been completed, it is required to be signed indicating that the cost has been approved prior to being sent to the Business Office for payment processing within the VISION system.

During our testwork over non-personal expenditures we noted the following:

- A. One out of fifteen invoices selected for testwork represented costs paid for renovations to the third floor of the building utilized by the Department. Based upon the supporting documentation provided, we could not determine if this renovation was related to the Immunization Grant Program, because the support attached did not provide adequate documentation.
- B. One out of fifteen invoices selected for testwork represented costs paid for the removal of a computer system. Based upon the supporting documentation provided, it was unclear as to whether or not this related to the Immunization Grant Program.

These appear to be isolated instances. The lack of proper procedures to ensure all costs are properly supported when the amount is approved for payment could result in unallowable costs being charged to the program.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 – 22, Continued

Questioned Costs

\$6,750 – The questioned costs are comprised of \$4,900 related to the amount of the invoice paid for the renovations under bullet point A and \$1,850 related to the amount of the invoice paid for the removal of computer system.

Recommendation

We recommend that the Department implement the necessary policies and procedures to ensure that costs charged to federal programs are in compliance with OMB Circular A-87.

Management's Response

Steps to Correct:

- A. With respect to the questioned cost in the amount of \$4,900, we agree that the documentation for the payment was inadequate and resolve to maintain documentation sufficient to identify the benefiting program for future renovation costs which are charged directly to a program. The payment was for ordinary building renovations, of the sort that are normally undertaken by the Department to provide adequate work space for program personnel.
- B. With respect to the questioned cost in the amount of \$1,850, we believe this cost was appropriately charged to the Immunization program. The payment was for picking up obsolete computer equipment at various Health Department locations throughout the state as part of the "rollout" of new computer equipment to support the Immunization Registry.

Scheduled Completion Date: No corrective action is considered necessary.

Contact Person: Patrick Burke, Federal Grants Administrator, Department of Health, (802) 863-7257.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 – 23

Agency of Human Services

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

Requirement

The State must provide for independent peer reviews which assess the quality, appropriateness, and efficacy of treatment services provided to individuals. At least 5 percent of the entities providing services in the State shall be reviewed. The State shall ensure that the peer reviewers are independent by ensuring that the peer review does not involve reviewers reviewing their own programs and the peer review is not conducted as part of the licensing or certification process. (42 USC 300x-53; 45 CFR section 96.136)

Condition Found

The State of Vermont does not own or operate its own substance abuse treatment facility and utilizes external treatment providers to provide substance abuse services throughout the state. During our testwork over the independent peer review process, we noted that there are currently no programs or processes in place to ensure regular independent peer review of external treatment providers in the State of Vermont and there are no systems in place to ensure that five percent of external treatment providers are reviewed annually. While some external treatment providers receive an accreditation from the Commission for Accreditation of Rehabilitation Facilities (CARF) or from the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) appear to satisfy the above requirement, entities that do not seek CARF or JCAHO accreditation will not be reviewed. We further noted that the Department did not obtain a CARF or a JCAHO accreditation for twenty out of twenty-five external treatment providers.

This appears to be a systemic compliance deficiency. The lack of independent peer reviews could hinder the Department's ability to adequately monitor the treatment services provided by external treatment providers and could lead to unallowable costs charged to the federal grant.

This finding is considered to be a material weakness.

Questioned Costs

None noted.

Recommendation

We recommend that the Department implement the necessary policies and procedures to ensure that a system of independent peer reviews is implemented to properly monitor the treatment provided to individuals by the external treatment providers throughout the State that receive federal funding under this program.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 – 23, Continued

Management's Response

Steps to Correct:

We agree that the Department did not have peer reviews and did not review the required five percent of treatment providers in fiscal year 2004. For fiscal year 2005, the peer review requirement no longer applies. The position that has primary responsibility for the Health Department reviews was vacant through fiscal year 2004. The position was finally filled June 14, 2004, which corrects this deficiency. Since then, all of the treatment providers have been reviewed. Our goal is to review 100% of providers in a year, rather than the 5% required as a minimum. In addition, there are currently nine providers who have accreditation from CARF or JCAHO as well as having been reviewed by the Health Department.

Scheduled Completion Date: June 30, 2006.

Contact Person: Patrick Burke, Federal Grants Administrator, Department of Health, (802) 863-7257.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 – 24

Agency of Human Services

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

Requirement

A pass-through entity is responsible for:

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

Condition Found

Funds granted under the Block Grants for Prevention and Treatment of Substance Abuse are to be used for planning, carrying out and evaluating activities to prevent and treat substance abuse and other related activities. As the State does not own or operate its own substance abuse treatment facility, it grants funds to external parties to provide specified prevention and treatment services. During our testwork over the subrecipient monitoring process, we noted the following:

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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Finding 2004 – 24, Continued

- A. The Notice of Grant Award should contain information regarding the CFDA title and number, the amount of the award as it relates to the CFDA number, the name of the Federal Agency, requirements imposed by laws, regulations, and the provisions of contract or grant agreements. We noted two out of twenty-five grant award documents did not contain the CFDA number or the title of the program and therefore, it could not be determined the amount of the grant which related to this program. A coding/cover sheet is then prepared for each invoice and details the amount authorized to be paid under a certain program code, the expenditure code, and the funding source code. For each of these grants the entire amount of the invoice was paid and charged to the federal program code, however it could not be determined how much of that invoice should have actually been charged to the program.
- B. Each subrecipient providing treatment services is required to provide audited financial statements and when applicable, a single audit report. The Department does not have the procedures to determine whether or not the subrecipient is a for profit and non-profit entity that would be subjected to the requirements of OMB Circular A-133. As a result the Department is unable to monitor whether or not a provider should have submitted a single audit report. During our testwork, we noted eight out of the twenty-five subrecipients had submitted financial statements, ten out of twenty-five had submitted OMB Circular A-133 audits, one out of twenty-five had submitted a financial proposal and five out of twenty-five did not submit any audits as these awards related to preventing substance abuse and the Department does not require these providers to submit annual reports.
- C. The Notice of Grant Award contains information regarding the source of funding that details how much of the grant award relates to the CFDA #93.959. A coding/cover sheet is then prepared for each invoice and details the amount authorized to be paid under a certain program code, the expenditure code, and the funding source code. Per review of seven out of the twenty-five coding/cover sheets and invoices selected for testwork, we noted that the entire amount of the invoice was charged to the federal code for the program. Per review of the grant award document for these seven invoices, it appeared that the State had over expended the authorized amount as it relates to CFDA #93.959.
- D. Monthly utilization reports are submitted to the Department via electronic tapes. The Department receives the monthly information and compiles it into an annual summary report which is filed with the SYNAR report. However, there is no evidence maintained of these monthly utilization reports by the Department.
- E. Each subrecipient is required to sign statements of assurances as provided per the grant agreement. These assurances contain various standards that the Department requires them to follow over expending the block grant monies. In addition, it contains a clause regarding the suspension and debarment. We noted that for four of the twenty-five subrecipients there was not a signed statement of assurance that contained the clause regarding suspension and debarment.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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Finding 2004 – 24, Continued

The above instances noted appear to be systemic compliance deficiencies. The lack of procedures in place to monitor providers increases the risk that the Department would not be able to identify compliance deficiencies for their providers which could lead to unallowable costs being charged to the grant.

This finding is considered to be a material weakness.

Questioned Costs

\$42,559 represents the amount overexpended for bullet C above.

Recommendation

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

Management's Response

Steps to Correct:

- A. The two grant award documents cited did not contain the required A-133 advice to the subgrantee about federal funds. This appears to have been simply due to clerical error. The Department has a procedure for review of the grant award documents before they are signed, and as a corrective action staff will be attentive during this review to the possibility of missing information on the award. We do not dispute the need to display this information; however it is worth noting that the information that would normally have been present is not intended to be a control mechanism. It is intended to be advisory information to the subrecipient, providing the Department's best estimate of the amount of federal reimbursement that will ultimately fund this grant award.
- B. The Department does try to determine whether or not a subgrantee is a non-profit entity. Our general practice is to make grants only to non-profit entities, so the existence of a grant award should indicate that the Department believes that the entity in question is a non-profit. In the case of SAPT payments, we also need to know the non-profit status because federal SAPT funds cannot be used for for-profit entities. Although all of the entities receiving SAPT funds through a grant mechanism can be assumed to be non-profit, the Health Department does not know whether the expenditure threshold has been met by the entity or whether the Health Department is the cognizant agency for the entity. Procedures have been implemented in fiscal year 2005 by the Finance Department to address these issues.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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Finding 2004 – 24, Continued

Management's Response, Continued

- C. The finding is correct in stating that the grant award contains information regarding our expected ultimate amounts of state and federal funding that will support the award. As noted in (A) above, this advisory information is not intended to be a control mechanism. Rather, it is our best information as to the amount of federal funding that might be applied to the award through the course of the award period. The actual distribution of expenditures to state and federal fund sources depends on the grand total of all Department SAPT expenditures that will occur during the year and on the final federal grant award, which may be larger or smaller than initially anticipated. These amounts are not known until well after the grant award is issued. As payments are made, the total costs are charged to the federal grant because all of the costs are eligible, and for this reason, we do not agree that any of these costs should be questioned. These costs are charged to SAPT even though we will not know what share of these total costs will ultimately be supported by federal funds. We note that A-133 states that, "when some of this information is not available, the pass-through entity shall provide the best information available to describe the federal award." (§ __.400[d][1]) This language seems consistent with our current practice of giving our best estimate at the time the grant award is issued and then charging all eligible costs to the federal grant even though there is no expectation that the federal grant will ultimately cover all costs.
- D. Utilization reports are submitted to the Department monthly. They are submitted electronically, via email. This particular data is not related to SYNAR reports. The Department takes the emailed data and merges them into our database. We will establish a practice of saving the emailed file separately for one year.
- E. We agree that the previous statement of assurance did not require a signature assuring compliance with suspension and debarment regulations. The form has since been changed and these compliance items are now included in the signed statement of assurance.

Scheduled Completion Date: June 30, 2006.

Contact Person: Patrick Burke, Federal Grants Administrator, Department of Health, (802) 863-7257.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 – 25

Agency of Human Services

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

Requirement

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

Condition Found

The Department requires that all grant programs requesting a payment for services or goods to complete and sign a coding/cover sheet in order for a payment to be paid, and indicate the account code to be charged, along with the fund, department identification number, program code and the project grant code. The Program Director for each grant is responsible for reviewing the invoice and requesting the coding/cover sheet to be completed if the costs are appropriate and allowable under the grant. Once the coding/cover sheet has been completed, it is required to be signed indicating that the cost has been approved prior to being sent to the Business Office for payment processing within the VISION system.

We noted the following:

- A. Two out of fifteen invoices selected for testwork related to expenditures for a Department other than the Substance Abuse Prevention and Treatment Program. Although the coding/cover sheet included a Substance Abuse Prevention and Treatment Program code, it also contained another Departmental name on the sheet.
- B. One out of fifteen invoices selected for teswork indicated that a certain expenditure code was to be charge for “x” amount of dollars and another code for “x” amount of dollars. We noted there was an error in posting these charges and an incorrect expenditure code was utilized.

These above instances appear to be isolated. The lack of effective procedures in place to adequately monitor and approve charges made against the federal program could result in unallowable charges being made and reported against the federal program.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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Finding 2004 – 25, Continued

Questioned Costs

\$3,374 - represents the amount paid for the two invoices identified in bullet A above.

Recommendation

We recommend that the Department implement the necessary policies and procedures to ensure that costs are appropriately charged to the correct federal programs.

Management's Response

Steps to Correct:

- A. Of the two invoices selected, one of them was clearly related to a program other than SAPT, as noted in the finding. It was an invoice for \$1,262.43 and was clearly related to the orthopedic program for children with special health care needs, program code 39584. Digits were inverted and it was erroneously charged to SAPT, program code 39854. The other invoice was prepared by a person in the Administration's Information Technology Services unit, and so it bore the note "Admin/ITS." However, it was correctly coded to the Alcohol and Drug Prevention Unit, program code 39811. Invoices for all computer-related purchases are processed by ITS staff regardless of the unit that will use the items. In this case, the invoice was for supplies related to computer printers, purchased from Insight Public Sector, a computer supply firm. The requisition code on the coding sheet also indicate that this was delivery was intended for the SAPT program. In summary, we agree that \$1,262.43 is an unallowable charge to SAPT.
- B. We agree that there was a data entry error. In paying one invoice with several lines, a printing cost was coded to "517300 freight and express" rather than "517000 printing." The next line was reversed, so that the freight costs were charged erroneously to printing. Both costs were eligible charges to SAPT.

Scheduled Completion Date: Corrected.

Contact Person: Patrick Burke, Federal Grants Administrator, Department of Health, (802) 863-7257.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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Finding 2004 – 26

Agency of Human Services

Child Support Enforcement (CFDA #93.563)

Requirement

Enforcement action is to be taken no later than 60 calendar days of identifying a delinquency or other support related noncompliance with the order, or the location of the non-custodial parent, which ever occurs later (45 CFR 303.6(c)(2)).

Condition Found

The ACCESS system monitors cases and initiates case actions automatically until it encounters a situation that requires intervention. This means it automatically generates notices, forms packages, monthly bills, monitors payments, and refers cases to the appropriate worker at the appropriate point. There is a daily report function that lists those cases requiring attention. Within this daily report are case-tracking reminders directing the worker to the next processing action required for each case.

ACCESS provides for the documentation of contacts made with the non-custodial parent, employers, the custodial parent, attorneys, or other principals in a case to be recorded into the case file. Other comments, notes on legal or locate actions or actions taken by the caseworker are also recorded through the CONTACT function to the case history ACTN log. ACCESS provides a full history of each case on the ACTN log, including contacts, comments, addresses, employers, case action codes, obligation history, case status history, notice requests, and a variety of other case data changes. This provides an informative database allowing efficient sharing of information

During our testwork, we noted three instances out of twenty-five cases in which no enforcement action was taken within the 60-day requirement. These appear to be isolated instances given the nature of the case in that the necessary computerized procedures in place did not trigger the enforcement action to be taken in the proper time period.

Questioned Cost

Not determinable.

Recommendation

We recommend that the Office of Child Support implement the necessary policy and procedures to ensure that enforcement action be taken within the proper federal guidelines.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 – 26, Continued

Management's Response

Steps to Correct:

We concur. Policies and procedures are currently in place that require enforcement action be taken within the required 60 day time limit. This appears to be a training issue. This issue will be brought to the attention of the Regional Managers, with specific cases identified to illustrate the problem. In addition, statewide training will again be provided to OCS personnel emphasizing the federal timing requirements and the importance of compliance with the regulations.

Scheduled Completion Date: June 30, 2006.

Contact Person: Larry Lamson, Business Manager, Department of Children and Families,
(802) 241-3938.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
For the Year ended June 30, 2004

Finding 2004 – 27

Agency of Human Services

Child Support Enforcement (CFDA #93.563)

Requirement

The State IV-D Agency must attempt to secure medical support information, and establish and enforce medical support obligations for all individuals eligible for services under 45 CFR section 302.33. Specifically, the State IV-D Agency must determine whether the custodial parent and child have satisfactory health insurance other than Medicaid. If not, the Agency must petition the court or administrative authority to include medical support in the form of health insurance coverage in all new or modified orders for support. The Agency is also required to establish written criteria to identify cases not included above, where there is a high potential for obtaining medical support based on: (1) available evidence that health insurance may be available to the absent parent at reasonable cost, and (2) facts (as defined by the State) which are sufficient to warrant modification of an existing support order to include health insurance coverage for a dependent child(ren). For cases meeting the established criteria, the agency shall petition the court or administrative authority to modify support orders to include medical support in the form of health insurance coverage (45 CFR sections 303.31(b)(1)-(4)).

For non-TANF cases, the Agency shall petition for medical support when the eligible individual is a Medicaid recipient or with consent of the individual if not a Medicaid recipient (45 CFR section 303.31(c)).

In cases where medical support is ordered, the agency is required to verify that it was obtained. If it was not obtained, the Agency should take steps to enforce the health insurance coverage required by the support order, unless it determines that health insurance was not available to the absent parent at reasonable cost (45 CFR section 303.31(b)(7)).

The Agency shall inform the Medicaid Agency when a new or modified order for child support includes medical support and shall provide information to the custodial parent concerning the health insurance policy secured under any order (45 CFR sections 303.31(b)(5) and (6)).

The Agency shall determine whether the State IV-D agency petitioned for and secured or pursued enforcement of medical support in the form of health insurance as part of support orders and informed the Medicaid Agency and custodial parent as required.

STATE OF VERMONT
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Finding 2004 – 27, Continued

Condition Found

All legal petitions to the Family Court in Vermont for child support include a request for medical support, whether or not health insurance at a reasonable cost is currently available. Therefore, each court order that is issued by the Family Court concerning child support also includes a medical support order as well. During our testwork over securing and enforcing medical support obligations, we noted the following:

- If the Family Court orders that the non-custodial parent is required to provide medical support then a form is sent out to the employer. The employer is then responsible for completing the form and forwarding the information onto the health insurance carrier. There are no follow-up procedures or mechanisms in place to ensure that the employer forwarded this information on to the health insurance carrier and to ensure that the necessary medical support has been received.
- If the Family Court orders that the cost of providing medical support is not a reasonable cost or health insurance is not available from the employer, then the court will determine that Medicaid assumes the responsibility for providing medical coverage. Once this determination is made there are no procedures in place should the cost of health care become available at a reasonable cost (e.g., a non-custodial parent receives a raise or changes jobs).

We understand that the Office of Child Support (OCS) has implemented procedures for the National Medical Support Notices, which outline the responsibility for tracking and processing medical support notices and responses received from employers, non-custodial, custodial and plan administrators. However, at this time, there is little in the way of ACCESS system support for the various actions the child support case technician must take at various points during the process. OCS is currently in the process of designing system support processes for the case technician's work. As a result of the deficiencies noted above, we were unable to test this requirement. This appears to be a systemic compliance deficiency.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Office of Child Support implement the necessary policy and procedures to ensure proper compliance with securing and enforcing medical support obligations.

STATE OF VERMONT
Schedule of Current Year Findings and Questioned Costs
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Finding 2004 – 27, Continued

Management's Response

Steps to Correct:

We concur. The Office of Child Support, in conjunction with the Economic Services Division of the Department for Children and Families and the Office of Vermont Health Access, has developed a medical support initiative which will address the issues above and vastly improve the way the State identifies, processes and enforces medical support ordered by the courts. Funding for this initiative has been requested from the legislature as part of the state fiscal year 2006 budget. If approved, the project will begin in early summer 2005.

Scheduled Completion Date: June 30, 2006.

Contact Person: Larry Lamson, Business Manager, Department of Children and Families,
(802) 241-3938.