

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
 AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
 OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
 WITH GOVERNMENT AUDITING STANDARDS**

The Speaker of the House of Representatives,
 President Pro-Tempore of the Senate
 And the Governor of the State of Vermont

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Vermont (the State), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 21, 2018. Our report includes a reference to other auditors who audited the financial statements of certain funds and component units of the State, which represent the indicated percent of total assets and total revenues as described in our report on the State's financial statements and as presented in the following tables. Additionally, 100% of the information disclosed in Note V-E was also audited by other auditors. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

	Percentage Audited by Other Auditors	
	Assets	Revenues
Governmental Activities	9%	2%
Business-type Activities	2%	39%
Aggregate Discretely Presented Component Units	100%	100%
Special Fund	6%	12%
Federal Revenue Fund	75%	6%
Vermont Lottery Commission Fund	100%	100%

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

The Speaker of the House of Representatives,
President Pro-Tempore of the Senate
And the Governor of the State of Vermont

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

State of Vermont's Response to Findings

The State's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The State's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Boston, Massachusetts
December 21, 2018

**State of Vermont
Schedule of Findings and Management Response
June 30, 2018**

Material Weakness

Finding 2018-001 – Component Units

Condition

The State did not have adequate controls in place to properly consolidate the discretely presented component units to the financial statements.

Criteria

Statement of Governmental Accounting Standards (GASB Statement) No. 14, *The Financial Reporting Entity*, states that “An organization that is a component unit of a financial reporting entity may have component units of its own. The component unit financial data that are incorporated into a reporting entity’s financial statements should include the data from all its component units.”

Context

The University Medical Associates, Inc. (UMEA) and University of Vermont Foundation, Inc. (UVMF) are legally separate, tax exempt discretely presented component units of the University of Vermont and State Agricultural College. These component units were not reported in the State’s group financial statements as of and for the year ended June 30, 2017.

Effect

A prior period adjustment due to the correction of an error of \$164,819,000 was required to restate beginning net position of the University of Vermont and State Agricultural College.

Cause

Controls surrounding financial close and reporting did not detect the misstatement.

Recommendation

We recommend that policies and procedures be implemented to ensure that internal controls over financial close and reporting include consideration of reporting all required elements of discretely presented component units in the group financial statements.

Management Response

The Department of Finance and Management (DF&M) agrees with the finding. In order to correct this issue, DF&M has updated its reporting procedures on how we consolidate the State’s discretely presented component units for financial reporting. DF&M has added a step to review the discretely presented component units audited financial statements to identify if they reported any discretely presented component units of their own that will need to be included in the State’s group financial statements as part of the State’s Comprehensive Annual Financial Report (CAFR).