



STATE OF VERMONT

Auditors' Reports as Required by *Uniform Guidance* and
Government Auditing Standards and Related Information

Year Ended June 30, 2017

(With Independent Auditors' Report Thereon)

STATE OF VERMONT

Auditors' Reports as Required by *Uniform Guidance*, and
Government Auditing Standards and Related Information

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**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, 2017, 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, 2017. Our report includes an emphasis of matter paragraph noting that the State adopted the provisions Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement No. 77, *Tax Abatement Disclosures*. Our opinions are not modified with respect to these matters. Our report also includes a reference to other auditors who audited the financial statements of certain discretely presented component units identified in note IA of the State's basic financial statements, the Vermont Lottery Commission, the Special Environmental Revolving Fund, the Vermont Energy Efficiency Utility Fund, the Vermont Universal Service Fund, and the Tri-State Lotto Commission, as described in our report on the State's basic financial statements. 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 auditors.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses: 2017-001 and 2017-002.



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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies: 2017-003 and 2017-004.

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*.

The State's Response to Findings

The State's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The State's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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.

KPMG LLP

Colchester, Vermont
December 21, 2017



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Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited the State of Vermont's (the State) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended June 30, 2017. The State's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

As described in note 1(a) to the schedule of expenditures of federal awards (the Schedule), the State's basic financial statements include the operations of certain entities whose federal awards are not included in the accompanying Schedule for the year ended June 30, 2017. Our audit, described below, did not include the operations of the entities identified in note 1(a) to the Schedule, because those entities had separate audits in accordance with the Uniform Guidance, if required.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the State's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 unmodified and modified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the State's compliance.



Basis for Qualified Opinions on Certain Major Federal Programs

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

Table 1

State agency/ department name	Federal program name	Compliance requirements	Finding number	Page number
Agency of Human Services	SNAP Cluster	Allowability, Special Tests and Provisions	2017-005	28
Agency of Education	Child Nutrition Cluster	Allowability	2017-008	34
Agency of Education	Child Nutrition Cluster	Allowability, Eligibility, Suspension and Debarment, Subrecipient Monitoring	2017-010	38
Agency of Education	Child Nutrition Cluster	Matching	2017-011	44
Agency of Education	Child Nutrition Cluster	Special Tests and Provisions	2017-012	46
Agency of Education	Child and Adult Care Food Program	Subrecipient Monitoring	2017-013	49
Agency of Transportation	Highway Safety Cluster	Federal Reporting	2017-018	60
Agency of Transportation	Highway Safety Cluster	Earmarking, Federal Reporting	2017-020	65
Agency of Human Services	Race to the Top – Early Learning Challenges	Allowability	2017-021	68
Agency of Human Services	Race to the Top – Early Learning Challenges	Subrecipient Monitoring	2017-022	70
Agency of Human Services	TANF Cluster	Allowability, Eligibility, Special Tests and Provisions	2017-023	72
Agency of Human Services	Foster Care – Title IV-E	Allowability, Eligibility	2017-025	77
Agency of Human Services	Foster Care – Title IV-E	Allowability, Eligibility, Special Tests and Provisions	2017-026	79
Agency of Human Services	Medicaid Cluster	Allowability, Eligibility	2017-027	82
Agency of Human Services	Medicaid Cluster	Special Tests and Provisions	2017-028	85
Department of Public Safety	Homeland Security Grant Program	Equipment and Real Property Management	2017-029	88

Qualified Opinions on Major Federal Programs

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinions* paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs listed in Table 1 above for the year ended June 30, 2017.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditors' results section of the accompanying schedule of finding and questioned costs for the year ended June 30, 2017.



Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-007, 2017-009, 2017-015, 2017-017 and 2017-024. Our opinion on each major federal program is not modified with respect to these matters.

The State's responses to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-005, 2017-006, 2017-008, 2017-010, 2017-011, 2017-012, 2017-013, 2017-018, 2018-019, 2017-020, 2017-021, 2017-022, 2017-023, 2017-025, 2017-026, 2017-027, 2017-028, and 2017-029 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2017-007, 2017-009, 2017-014, 2017-015, 2017-016, 2017-017, and 2017-024 to be significant deficiencies.

The State's responses to the internal control over compliance findings in our audit are described in the accompanying schedule of findings and questioned costs. The identified State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.



The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited 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, as of and for the year ended June 30, 2017 and related notes to the financial statements which collectively comprise the State's basic financial statements. We issued our report thereon dated December 21, 2017, which referred to the use of the reports of other auditors and which contained unmodified opinions on those financial statements. Our report included an emphasis of matter paragraph noting the State's adoption of Governmental Accounting Standards Board Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement No. 77, *Tax Abatement Disclosures*, for fiscal year ended June 30, 2017.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

Colchester, Vermont
March 22, 2018

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

CFDA number	Federal agency/program type	Pass-through identifying number	Expenditures	Amounts passed through to subrecipients
Direct grants:				
U.S. Department of Agriculture:				
10.025	Plant and Animal Disease, Pest Control, and Animal Care		\$ 342,828	68,080
10.028	Wildlife Services		10,000	—
10.153	Market News		38,184	—
10.156	Federal-State Marketing Improvement Program		25,047	—
10.163	Market Protection and Promotion		10,800	—
10.170	Specialty Crop Block Grant Program – Farm Bill		277,916	193,063
10.331	Food Insecurity Nutrition Incentive Grants Program		19,729	4,500
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection		649,450	—
10.547	Professional Standards for School Nutrition Employees		2,142	2,142
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children		10,839,795	—
10.558	Child and Adult Care Food Program		7,020,936	6,927,910
10.560	State Administrative Expenses for Child Nutrition		894,735	1,000
10.572	WIC Farmers' Market Nutrition Program (FMNP)		43,303	—
10.575	Farm to School Grant Program		18,644	—
10.576	Senior Farmers Market Nutrition Program		104,906	82,499
10.578	WIC Grants to States (WGS)		13,986	—
10.579	Child Nutrition Discretionary Grants Limited Availability		32,605	32,605
10.582	Fresh Fruit and Vegetable Program		1,948,889	1,838,498
10.596	Pilot Projects to Reduce Dependency and Increase Work Requirements and Work Effort under SNAP		2,805,905	300,000
10.664	Cooperative Forestry Assistance		975,034	374,534
10.674	Wood Utilization Assistance		57,065	41,701
10.675	Urban and Community Forestry Program		23,740	4,987
10.676	Forest Legacy Program		811,735	—
10.678	Forest Stewardship Program		1,602	—
10.680	Forest Health Protection		288,984	209,764
10.902	Soil and Water Conservation		26,658	—
10.912	Environmental Quality Incentive Program		325,971	—
10.932	Regional Conservation Partnership Program		153,657	—
10.999	Organic Certification – Producers		408,607	—
<i>SNAP Cluster</i>				
10.551	Supplemental Nutritional Assistance Program		113,541,709	—
10.561	State Administrative Matching Grants for the Supplemental Nutritional Assistance Program		8,625,336	501,412
	Total SNAP Cluster		<u>122,167,045</u>	<u>501,412</u>
<i>Child Nutrition Cluster</i>				
10.555	National School Lunch Program		26,084,598	23,496,039
10.559	Summer Food Service Program for Children		1,520,813	1,468,458
	Total Child Nutrition Cluster		<u>27,605,411</u>	<u>24,964,497</u>
<i>Food Distribution Cluster</i>				
10.565	Commodity Supplemental Food Program		772,166	216,948
10.568	Emergency Food Assistance Program (Administrative Costs)		89,921	89,921
10.569	Emergency Food Assistance Program (Commodities)		1,528,502	—
	Total Food Distribution Cluster		<u>2,390,589</u>	<u>306,869</u>
<i>Forest Service Schools and Roads Cluster</i>				
10.665	Schools and Roads – Grants to States		172,459	172,459
	Total Forest Service Schools and Roads Cluster		<u>172,459</u>	<u>172,459</u>
	Total U.S. Department of Agriculture		<u>180,508,357</u>	<u>36,026,520</u>
U.S. Department of Commerce:				
11.407	Interjurisdictional Fisheries Act of 1986		11,087	6,801
11.549	State and Local Implementation Grant Program		209,634	—
	Total U.S. Department of Commerce		<u>220,721</u>	<u>6,801</u>
U.S. Department of Defense:				
12.002	Procurement Technical Assistance For Business Firms		413,680	48,798
12.113	State Memorandum of Agreement Program for the Reimbursement of Technical Services		9,721	—
12.401	National Guard Military Operations and Maintenance (O&M) Projects		27,461,777	—
12.404	National Guard ChalleNGe Program		592,536	—
12.617	Economic Adjustment Assistance for State Governments		91,485	—
	Total U.S. Department of Defense		<u>28,569,199</u>	<u>48,798</u>
U.S. Department of Housing and Urban Development:				
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii		12,032,151	11,697,148
14.231	Emergency Solutions Grant Program		595,980	484,052

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

CFDA number	Federal agency/program type	Pass-through identifying number	Expenditures	Amounts passed through to subrecipients
14.239	Home Investment Partnerships Program		\$ 3,107,111	3,000,467
14.267	Continuum of Care Program		25,971	7,465
14.999	Office of Fair Housing-Assistance Grant		74,272	—
	<i>CDBG-Disaster Recovery Grants-Pub. L. No. 113-2 Cluster</i>			
14.269	Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)		3,091,360	2,973,043
	Total CDBG-Disaster Recovery Grants-Pub. L. No. 113-2 Cluster		3,091,360	2,973,043
	Total Department of Housing and Urban Development		18,926,845	18,162,175
	U.S. Department of Interior:			
15.608	Fish and Wildlife Management Assistance		15,291	3,702
15.615	Cooperative Endangered Species Conservation Fund		35,050	—
15.616	Clean Vessel Act Program		564	—
15.626	Enhanced Hunter Education and Safety Program		30,000	30,000
15.631	Partners for Fish and Wildlife		25,911	—
15.634	State Wildlife Grants		441,293	77,888
15.657	Endangered Species Conservation-Recovery Implementation Funds		31,243	—
15.808	U.S. Geological Survey Research and Data Collection		12,450	—
15.810	National Cooperative Geologic Mapping Program		41,929	31,785
15.904	Historic Preservation Fund Grants-In-Aid		620,506	139,765
15.916	Outdoor Recreation – Acquisition, Development and Planning		526,173	169,580
15.926	American Battlefield Protection		17,814	—
	<i>Fish and Wildlife Cluster</i>			
15.605	Sport Fish Restoration Program		1,979,914	—
15.611	Wildlife Restoration and Basic Hunter Education		4,469,017	7,710
	Total Fish and Wildlife Cluster		6,448,931	7,710
	Total U.S. Department of Interior		8,247,155	460,430
	U.S. Department of Justice:			
16.017	Sexual Assault Services Formula Program		290,507	274,132
16.523	Juvenile Accountability Block Grants		67,162	—
16.540	Juvenile Justice and Delinquency Prevention – Allocation to States		254,296	176,719
16.543	Missing Children's Assistance		205,126	32,367
16.550	State Justice Statistics Program for Statistical Analysis Centers		122,095	—
16.554	National Criminal History Improvement Program (NCHIP)		66,924	—
16.575	Crime Victim Assistance		3,134,134	2,762,882
16.576	Crime Victim Compensation		190,551	—
16.582	Crime Victim Assistance/Discretionary Grants		149,605	—
16.585	Drug Court Discretionary Grant Program		66,349	—
16.588	Violence Against Women Formula Grants		784,839	782,669
16.589	Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program		480,606	478,439
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program		23,990	16,078
16.593	Residential Substance Abuse Treatment for State Prisoners		5,000	—
16.710	Public Safety Partnership and Community Policing Grants		595,349	—
16.738	Edward Byrne Memorial Justice Assistance Grant Program		638,143	102,502
16.741	DNA Backlog Reduction Program		149,485	—
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program		75,469	—
16.751	Edward Byrne Memorial Competitive Grant Program		13,295	—
16.754	Harold Rogers Prescription Drug Monitoring Program		60,117	18,260
16.812	Second Chance Act Reentry Initiative		791,079	63,648
16.826	Vision 21		68,254	—
16.922	Equitable Sharing Program		181,742	6,171
16.999	Drug Enforcement Administration – DEA		5,696	—
16.999	FBI Joint Terrorism Task Force		2,059	—
16.999	FBI Special Investigations		897	—
16.999	HSI Special Investigations		3,054	—
16.999	ICE/SLOT (formally Bordergap)		219	—
16.999	Evidence (Asset Seizure) Forfeiture Funds (Justice & Treasury)		3,843	—
	Total U.S. Department of Justice		8,429,885	4,713,867
	U.S. Department of Labor:			
17.002	Labor Force Statistics		736,264	—
17.005	Compensation and Working Conditions		39,977	—
17.225	Unemployment Insurance		80,995,166	—
17.235	Senior Community Service Employment Program		476,762	452,492
17.245	Trade Adjustment Assistance		564,262	—
17.261	WIOA Pilots, Demonstrations, and Research Projects		173,783	—
17.268	H-1B Job Training Grants		466,789	391,233
17.271	Work Opportunity Tax Credit Program (WOTC)		30,837	—
17.273	Temporary Labor Certification for Foreign Workers		110,717	—

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

CFDA number	Federal agency/program type	Pass-through identifying number	Expenditures	Amounts passed through to subrecipients
17.277	Workforce Investment Act (WIA) National Emergency Grants		\$ 612,129	326,489
17.281	WIA/WIOA Dislocated Worker National Reserve Technical Assistance and Training		57,385	—
17.285	Apprenticeship USA Grants		98,682	98,193
17.503	Occupational Safety and Health – State Program		742,729	—
17.504	Consultation Agreements		364,757	—
17.600	Mine Health and Safety Grants		84,262	80,989
	<i>Employment Service Cluster</i>			
17.207	Employment Service/Wagner – Peyser Funded Activities		2,275,210	—
17.801	Disabled Veterans' Outreach Program (DVOP)		418,963	—
	Total Employment Service Cluster		<u>2,694,173</u>	<u>—</u>
	<i>WIA Cluster</i>			
17.258	WIA Adult Program		1,981,437	—
17.259	WIA Youth Activities		1,961,064	139,236
17.278	WIA Dislocated Worker Formula Grants		766,882	—
	Total WIA Cluster		<u>4,709,383</u>	<u>139,236</u>
	Total U.S. Department of Labor		<u>92,958,057</u>	<u>1,488,632</u>
	U.S. Department of Transportation:			
20.106	Airport Improvement Program		9,457,449	4,901
20.200	Highway Research and Development Program		936,111	180,185
20.215	Highway Training and Education		112,855	—
20.218	National Motor Carrier Safety		664,483	—
20.233	Boarder Enforcement Grants		48,647	—
20.314	Railroad Development		11,689	11,689
20.319	High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants		1,374,287	—
20.505	Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research		3,002,946	63,020
20.509	Formula Grants for Rural Areas		14,056,482	13,550,803
20.513	Enhanced Mobility of Seniors and Individuals with Disabilities		427,133	379,988
20.521	New Freedom Program		20,830	20,830
20.523	Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions		39,829	39,829
20.608	Minimum Penalties For Repeat Offenders For Driving While Intoxicated		696,045	678,579
20.614	National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants		21,114	—
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants		56,790	19,171
20.721	PHMSA Pipeline Safety Program One Call Grant		327,714	—
20.933	National Infrastructure Investments		586,798	—
	<i>Highway Planning and Construction Cluster</i>			
20.205	Highway Planning and Construction		225,632,288	19,677,301
20.219	Recreational Trails Program		1,064,161	540,549
	Total Highway Planning and Construction Cluster		<u>226,696,449</u>	<u>20,217,850</u>
	<i>Federal Transit Cluster</i>			
20.526	Bus and Bus Facilities Formula Program		2,973,617	2,906,647
	Total Federal Transit Cluster		<u>2,973,617</u>	<u>2,906,647</u>
	<i>Highway Safety Cluster</i>			
20.600	State and Community Highway Safety		3,045,800	2,193,899
20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I		138,224	90,154
20.609	Safety Belt Performance Grants		49,302	—
20.610	State Traffic Safety Information System Improvements Grants		318,299	258,299
20.613	Child Safety and Child Booster Seat Incentive Grants		20,802	7,987
20.616	National Priority Safety Programs		2,698,645	1,409,201
	Total Highway Safety Cluster		<u>6,271,072</u>	<u>3,959,540</u>
	Total U.S. Department of Transportation		<u>267,782,340</u>	<u>42,033,032</u>
	U.S. General Services Administration:			
39.003	Donation of Federal Surplus Personal Property		396,538	—
	Total U.S. General Services Administration		<u>396,538</u>	<u>—</u>
	U.S. Institute of Museum and Library Service:			
45.310	Grants to States		1,005,259	110,189
	Total U.S. Institute of Museum and Library Service		<u>1,005,259</u>	<u>110,189</u>
	U.S. Small Business Administration:			
59.061	State Trade and Expansion		187,451	94,546
	Total U.S. Small Business Administration		<u>187,451</u>	<u>94,546</u>

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

CFDA number	Federal agency/program type	Pass-through identifying number	Expenditures	Amounts passed through to subrecipients
	U.S. Department of Veterans Affairs:			
64.005	Grants to States for Construction of State Home Facilities		\$ 858,000	—
64.028	Post-9/11 Veterans Educational Assistance		75,169	—
64.203	Veterans Cemetery Grants Program		<u>2,738,815</u>	<u>—</u>
	Total U.S. Department of Veterans Affairs		<u>3,671,984</u>	<u>—</u>
	U.S. Environmental Protection Agency:			
66.032	State Indoor Radon Grants		110,000	—
66.034	Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act		272,772	—
66.040	State Clean Diesel Grant Program		230,774	199,429
66.042	Temporally Integrated Monitoring of Ecosystems (TIME) and Long-Term Monitoring (LTM) Program		133,159	3,000
66.454	Water Quality Management Planning		55,041	10,000
66.461	Regional Wetland Program Development Grants		130,327	—
66.481	Lake Champlain Basin Program		832,721	135,495
66.605	Performance Partnership Grants		5,405,153	186,000
66.608	Environmental Information Exchange Network Grant Program and Related Assistance		354,728	—
66.700	Consolidated Pesticide Enforcement Cooperative Agreements		200,273	—
66.701	Toxic Substances Compliance Monitoring Cooperative Agreements		15,264	—
66.707	TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals		312,933	—
66.708	Pollution Prevention Grants Program		73,098	11,250
66.802	Superfund State, Political Subdivision and Indian Tribe Site-Specific Cooperative Agreements		111,313	—
66.804	Underground Storage Tank Prevention, Detection, and Compliance Program		186,142	—
66.805	Leaking Underground Storage Tank Trust Fund Corrective Action Program		685,225	—
66.809	Superfund State and Indian Tribe Core Program Cooperative Agreements		86,508	—
66.817	State and Tribal Response Program Grants		695,023	54,460
66.818	Brownfields Assessment and Cleanup Cooperative Agreements		380,885	317,595
	<i>Clean Water State Revolving Fund Cluster</i>			
66.458	Capitalization Grants for Clean Water State Revolving Funds		<u>1,717,966</u>	<u>1,331,057</u>
	Total Clean Water State Revolving Fund Cluster		<u>1,717,966</u>	<u>1,331,057</u>
	<i>Drinking Water State Revolving Fund Cluster</i>			
66.468	Capitalization Grants for Drinking Water State Revolving Funds		<u>13,703,122</u>	<u>11,182,078</u>
	Total Drinking Water State Revolving Fund Cluster		<u>13,703,122</u>	<u>11,182,078</u>
	Total U.S. Environmental Protection Agency		<u>25,692,427</u>	<u>13,430,364</u>
	U.S. Department of Energy:			
81.041	State Energy Program		549,094	350,215
81.042	Weatherization Assistance for Low – Income Persons		1,208,914	1,167,597
81.119	State Energy Program Special Projects		384,813	379,467
81.138	State Heating Oil and Propane Program		<u>5,520</u>	<u>—</u>
	Total U.S. Department of Energy		<u>2,148,341</u>	<u>1,897,279</u>
	U.S. Department of Education:			
84.002	Adult Education – Basic Grants to States		950,145	763,473
84.010	Title I Grants to Local Educational Agencies		34,452,494	33,793,778
84.011	Migrant Education – State Grant Program		881,662	741,486
84.013	Title I State Agency Program for Neglected and Delinquent Children and Youth		132,008	—
84.048	Career and Technical Education – Basic Grants to States		3,789,102	3,162,131
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States		12,698,440	—
84.169	Independent Living – State Grants		190,264	102,766
84.177	Rehabilitation Services – Independent Living Services for Older Individuals Who are Blind		317,704	225,000
84.181	Special Education – Grants for Infants and Families		2,177,216	64,000
84.187	Supported Employment Services for Individuals with the Most Significant Disabilities		168,101	—
84.196	Education for Homeless Children and Youth		161,837	93,627
84.224	Assistive Technology		273,714	2,000
84.287	Twenty-First Century Community Learning Centers		5,638,307	5,483,675
84.323	Special Education – State Personnel Development		602,800	155,696
84.330	Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)		24,874	—
84.365	English Language Acquisition State Grants		605,513	404,917
84.366	Mathematics and Science Partnerships		653,308	653,308
84.367	Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)		10,364,302	10,066,668
84.369	Grants for State Assessments and Related Activities		2,250,817	—
84.372	Statewide Longitudinal Data Systems		921,667	—
84.377	School Improvement Grants		71,647	53,280
84.412	Race to the Top – Early Learning Challenge		7,231,506	1,425,412
84.419	Preschool Development Grants		3,473,210	3,376,347
84.421	Disability Innovation Fund (DIF)		293,203	—

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

CFDA number	Federal agency/program type	Pass-through identifying number	Expenditures	Amounts passed through to subrecipients
	<i>Special Education Cluster (IDEA)</i>			
84.027	Special Education – Grants to States		\$ 27,229,398	23,908,709
84.173	Special Education – Preschool Grants		711,708	479,427
	Total Special Education Cluster (IDEA)		27,941,106	24,388,136
	Total U.S. Department of Education		116,264,947	84,955,700
	U.S. Election Assistance Commission:			
90.401	Help America Vote Act Requirements Payments		639,936	—
	Total U.S. Election Assistance Commission		639,936	—
	U.S. Northern Border Regional Commission:			
90.601	Northern Border Regional Development		413,717	—
	Total U.S. Northern Border Regional Commission		413,717	—
	Total U.S. Election Assistance Commission		1,053,653	—
	U.S. Department of Health and Human Services:			
93.041	Special Programs for the Aging – Title VII, Chapter 3 – Programs for Prevention of Elder Abuse, Neglect, and Exploitation		23,937	23,937
93.042	Special Programs for the Aging – Title VII, Chapter 2 – Long Term Care Ombudsman Services for Older Individuals		64,625	64,625
93.043	Special Programs for the Aging-Title III, Part D – Disease Prevention and Health Promotion Services		99,759	99,759
93.048	Special Programs for the Aging-Title IV_and Title II_Discretionary Projects		67,673	67,673
93.052	National Family Caregiver Support, Title III, Part E		720,063	300,665
93.069	Public Health Emergency Preparedness		4,604,353	40,443
93.070	Environmental Public Health and Emergency Response		810,657	63,666
93.071	Medicare Enrollment Assistance Program		109,899	109,899
93.073	Birth Defects and Developmental Disabilities – Prevention and Surveillance		55,848	—
93.074	Hospital Preparedness Program and Public Health Emergency Preparedness		978,951	—
93.079	Cooperative Agreements to Promote Adolescent Health through		78,183	—
93.090	Guardianship Assistance		118,604	—
93.092	Affordable Care Act (ACA) Personal Responsibility Education Program		252,849	154,651
93.094	Well-Integrated Screening and Evaluation for Women Across the Nation		596,753	—
93.103	Food and Drug Administration – Research		658,417	5,281
93.110	Maternal and Child Health Federal Consolidated Programs		391,631	223,108
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs		140,090	—
93.127	Emergency Medical Services for Children		125,921	—
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices		194,926	31,250
93.136	Injury Prevention and Control Research and State and Community Based Programs		993,667	521,438
93.150	Projects for Assistance in Transition from Homelessness (PATH)		300,001	300,000
93.165	Grants to States for Loan Repayment Program		180,000	180,000
93.184	Disabilities Prevention		100,915	—
93.217	Family Planning – Services		784,659	754,387
93.241	State Rural Hospital Flexibility Program		275,784	131,684
93.243	Substance Abuse and Mental Health Services – Projects of Regional		7,083,281	4,536,722
93.251	Universal Newborn Hearing Screening		250,469	188,500
93.268	Immunization Cooperative Agreements		9,253,454	—
93.270	Viral Hepatitis Prevention Control		71,331	—
93.283	Centers for Disease Control and Prevention – Investigations and		1,896,352	459,837
93.301	Small Rural Hospital Improvement Grant Program		69,780	69,269
93.305	National State Based Tobacco Control Programs		888,258	—
93.314	Early Hearing Detection and Intervention Information System (EHDI-IS) Surveillance Program		154,196	—
93.324	State Health Insurance Assistance Program		223,241	207,737
93.336	Behavioral Risk Factor Surveillance System		236,292	—
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home		1,845,733	113,130
93.511	Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review		20,594	—
93.517	Affordable Care Act – Aging and Disability Resource Center		275,592	163,761
93.520	Centers for Disease Control and Prevention – Affordable Care Act (ACA) – Communities Putting Prevention to Work		42,537	—
93.521	The Affordable Care Act: Building Epidemiology, Laboratory, and Health		1,655,396	26,664
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges		1,233,867	—
93.538	ACA National Environmental Public Health Tracking Program – Network Implementation		853,429	—
93.556	Promoting Safe and Stable Families		538,884	225,880
93.563	Child Support Enforcement		9,397,805	—
93.564	Child Support Enforcement Research		70,558	—
93.566	Refugee and Entrant Assistance – State Administered Programs		463,489	303,270
93.568	Low-Income Home Energy Assistance		18,270,805	3,724,195
93.569	Community Services Block Grant		3,820,926	3,204,337
93.576	Refugee and Entrant Assistance – Discretionary Grants		477,064	468,995

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

CFDA number	Federal agency/program type	Pass-through identifying number	Expenditures	Amounts passed through to subrecipients
93.586	State Court Improvement Program		\$ 217,176	—
93.590	Community – Based Child Abuse Prevention Grants		193,384	192,200
93.597	Grants to States for Access and Visitation Programs		102,785	101,418
93.599	Chafee Education and Training Vouchers Program (ETV)		114,680	114,680
93.600	Head Start		122,404	—
93.603	Adoption and Legal Guardianship Incentive Payments		47,602	—
93.624	ACA – State Innovation Models: Funding for Model Design and Model		13,265,002	1,504,382
93.630	Developmental Disabilities Basic Support and Advocacy Grants		472,490	147,100
93.643	Children’s Justice Grants to States		53,932	27,763
93.645	Stephanie Tubbs Jones Child Welfare Services Program		436,832	—
93.658	Foster Care – Title IV-E		12,426,570	—
93.659	Adoption Assistance		10,217,185	—
93.667	Social Services Block Grant		7,969,006	825,496
93.669	Child Abuse and Neglect State Grants		85,033	21,572
93.671	Family Violence Prevention and Services Domestic Violence Shelter and Supportive Services		893,805	714,386
93.674	Chafee Foster Care Independence Program		499,869	499,869
93.733	Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance		212,839	—
93.753	Child Lead Poisoning Prevention Surveillance		427,003	—
93.758	Preventive Health and Health Services Block Grant funded solely with Prevention and Public Health Funds (PPHF)		484,373	29,411
93.767	Children’s Health Insurance Program		11,910,909	—
93.791	Money Follows the Person Rebalancing Demonstration		2,444,861	—
93.815	Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infection Diseases		287,639	—
93.817	Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities		333,579	—
93.889	National Bioterrorism Hospital Preparedness Program		761,790	575,276
93.913	Grants to States for Operation of Offices of Rural Health		189,538	55,535
93.917	HIV Care Formula Grants		1,260,449	287,769
93.940	HIV Prevention Activities – Health Department Based		673,392	346,478
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency		175,553	—
93.945	Assistance Programs for Chronic Disease Prevention and Control		1,084,225	308,705
93.946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Program		183,047	—
93.958	Block Grants for Community Mental Health Services		887,728	811,864
93.959	Block Grants for Prevention and Treatment of Substance Abuse		5,592,947	4,138,077
93.961	One-Time Funding in Support of the Vermont All-Payer ACO Model		3,148,191	—
93.977	Sexually Transmitted Diseases (STD) Prevention and Control Grants		171,695	45,006
93.994	Maternal and Child Health Services Block Grant to the States		1,527,200	915,745
<i>Aging Cluster</i>				
93.044	Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers		1,656,391	1,656,391
93.045	Special Programs for the Aging – Title III, Part C – Nutrition Services		3,618,739	3,618,739
93.053	Nutrition Services Incentive Program		850,590	850,590
	Total Aging Cluster		<u>6,125,720</u>	<u>6,125,720</u>
<i>TANF Cluster</i>				
93.558	Temporary Assistance for Needy Families		33,233,017	76,343
	Total TANF Cluster		<u>33,233,017</u>	<u>76,343</u>
<i>CCDF Cluster</i>				
93.575	Child Care and Development Block Grant		12,842,203	2,506,096
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund		6,669,247	130,026
	Total CCDF Cluster		<u>19,511,450</u>	<u>2,636,122</u>
<i>Medicaid Cluster</i>				
93.775	State Medicaid Fraud Control Units		732,811	—
93.777	State Survey and Certification of Health Care Providers and Suppliers		2,429,659	—
93.778	Medical Assistance Program		1,059,926,445	23,831,558
	Total Medicaid Cluster		<u>1,063,088,915</u>	<u>23,831,558</u>
	Total U.S. Department of Health and Human Services		<u>1,272,655,313</u>	<u>61,097,238</u>
U.S. Corporation for National Community Service:				
94.003	State Commissions		195,417	—
94.006	AmeriCorps		1,572,458	1,551,563
94.009	Training and Technical Assistance		20,818	—
94.013	Volunteers in Service to America		29,188	—
	Total U.S. Corporation for National Community Service		<u>1,817,881</u>	<u>1,551,563</u>

STATE OF VERMONT
Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

CFDA number	Federal agency/program type	Pass-through identifying number	Expenditures	Amounts passed through to subrecipients
95.001	U.S. Executive Office of the President: High-Intensity Drug Trafficking Areas		\$ 1,971	—
	Total U.S. Executive Office of the President		<u>1,971</u>	<u>—</u>
96.008	U.S. Social Security Administration: Social Security-Work Incentives Planning and Assistance Program		110,000	—
96.001	<i>Disability Insurance/SSI Cluster</i> Social Security – Disability Insurance		<u>6,701,335</u>	<u>—</u>
	Total Disability Insurance/SSI Cluster		<u>6,701,335</u>	<u>—</u>
	Total U.S. Social Security Administration		<u>6,811,335</u>	<u>—</u>
97.012	U.S. Department of Homeland Security: Boating Safety Financial Assistance		476,240	41,401
97.023	Community Assistance Program – State Support Services Element (CAP – SSSE)		48,117	—
97.036	Disaster Grants – Public Assistance (Presidentially Declared Disasters)		5,274,136	3,250,455
97.039	Hazard Mitigation Grant		5,096,546	4,517,106
97.041	National Dam Safety Program		48,856	—
97.042	Emergency Management Performance Grants		3,353,009	640,732
97.043	State Fire Training Systems Grants		18,627	—
97.044	Assistance to Firefighters Grant		42,508	—
97.047	Pre-Disaster Mitigation		49,838	49,838
97.067	Homeland Security Grant Program		3,703,731	1,101,336
97.090	Law Enforcement Officer Reimbursement Agreement Program		<u>63,728</u>	<u>43,605</u>
	Total U.S. Department of Homeland Security		<u>18,175,336</u>	<u>9,644,473</u>
	Total direct grants		<u>2,055,524,995</u>	<u>275,721,607</u>
	Indirect federal grants:			
	Clean Energy States Alliance:			
81.117	Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	DE-EE0006305	<u>52,123</u>	<u>52,123</u>
	Total Clean Energy States Alliance		<u>52,123</u>	<u>52,123</u>
17.282	Vermont State Colleges and the University of Vermont: Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	TC265171460A50 TC237891260A50	<u>78,128</u>	<u>—</u>
	Total Vermont State Colleges and the University of Vermont		<u>78,128</u>	<u>—</u>
	Total indirect federal grants		<u>130,251</u>	<u>52,123</u>
	Total federal financial aid expended		<u>\$ 2,055,655,246</u>	<u>275,773,730</u>

See accompanying notes to schedule of expenditures of federal awards.

STATE OF VERMONT

Notes to the Schedule of Expenditures of Federal Awards
Year ended June 30, 2017

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of the State of Vermont (the State) applied in the preparation of the schedule of expenditures of federal awards (the Schedule) are set forth below:

(a) *Single Audit Reporting Entity*

For purposes of complying with Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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, 2017. The Schedule does not include component units identified in the notes to the basic financial statements.

The entities listed below are Discretely Presented Component Units in the State's basic financial statements, which received federal financial assistance for the year ended June 30, 2017. Each of these entities is subject to separate audits in compliance the audit requirements of the Uniform Guidance, if required.

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

Vermont Student Assistance Corporation	Vermont Municipal Bond Bank
University of Vermont and State Agricultural College	Vermont Transportation Authority
Vermont State College System	Vermont Veterans' Home
Vermont Educational and Health Buildings Financing Agency	Vermont Housing Finance Agency
	Vermont Economic Development Authority
	Vermont Housing Conservation Board

(b) *Basis of Presentation*

The information in the accompanying Schedule is presented in accordance with the Uniform Guidance. Pursuant to the Uniform Guidance, federal financial assistance is defined as assistance that nonfederal entities receive or administer in the form of grants, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, food commodities, direct appropriations, or other assistance and, therefore, are reported on the Schedule. Federal awards do not include direct federal cash payments to individuals. A copy of the schedule of expenditures of federal awards presented by State Department and Agency can be found on the State of Vermont Department of Finance and Management website.

(2) Basis of Accounting

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

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 the Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

(3) Categorization of Expenditures

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

(4) 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.

(5) Indirect Cost Rate

Whereas the various agencies and departments of the State may negotiate individual cost recovery rates with their cognizant agencies, the State is precluded from, and does not utilize, the 10% de minimus cost rate under the conditions of 2 CFR 200.414(f).

(6) 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. *OMB 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 classified as follows:

Federal	\$	12,776,579
State		<u>68,218,587</u>
Total	\$	<u>80,995,166</u>

(7) Airport Improvement Program (CFDA #20.106)

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

(8) Nonmonetary Federal Financial Assistance

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

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

The National School Lunch Program assists states in providing a nutritious food service program for low-income children through cash grants and food commodities, such as bread, meat, and other commodities. Total federal expenditures included in the Schedule for the National School Lunch Program represent the federal government's acquisition value of food commodities provided to the State. A total of \$2,569,754 of food commodities was included in the Schedule.

STATE OF VERMONT

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

(b) Summer Food Service Program for Children (CFDA #10.559)

The Summer Food Service Program for Children assists states, through grants-in-aid and other means, to conduct nonprofit food service programs for children during the summer months and at other approved times, when school is not in session. Total federal expenditures included in the Schedule for the Summer Food Service Program for Children represent the federal government's acquisition value of food commodities provided to the State. A total of \$5,186 of food commodities was included in the Schedule.

(c) Commodity Supplemental Food Program (CFDA #10.565)

The Commodity Supplemental Food Program provides food and administrative grants to improve the health and nutritional status of low-income pregnant, postpartum, and breastfeeding women; infants and children up to and including age 5; and elderly persons age 60 years and older through the donation of supplemental USDA foods. Total federal expenditures included in the Schedule for the Commodity Supplemental Food Program represent the federal government's acquisition value of the food commodities provided to the State. A total of \$555,218 of food commodities was included in the Schedule.

(d) Emergency Food Assistance Program (Commodities) (CFDA #10.569)

The Emergency Food Assistance Program helps supplement the diets of low-income Americans by providing them with food and nutritional assistance at no cost. Under this program, commodity foods are made available by the USDA to states. States provide the food to locally selected agencies, usually food banks, which in turn distribute the food to soup kitchens and pantries that directly serve the public. Total federal expenditures included in the Schedule for the Emergency Food Assistance Program represent the federal government's acquisition value of food commodities provided to the State. A total of \$1,528,502 of food commodities was included in the Schedule.

(e) Donation of Federal Surplus Personal Property (CFDA #39.003)

The State obtains surplus property from various federal agencies at no cost. The property is then sold by the State to eligible organizations for a nominal service charge. Total federal expenditures included in the Schedule for Donation of Federal Surplus Personal Property represent the federal government's acquisition value of the federal property sold by the State. A total of \$396,538 in donation of federal surplus property was included in the Schedule.

STATE OF VERMONT

Notes to the Schedule of Expenditures of Federal Awards

Year ended June 30, 2017

(f) *Immunization Cooperative Agreements (CFDA #93.268)*

To assist in establishing and maintaining preventive health service programs to immunize individuals against vaccine-preventable diseases, the State provides vaccines to local healthcare providers throughout the year in an effort to ensure that all residents have been properly immunized. Total federal expenditures included in the Schedule for Immunization Cooperative Agreements represent the federal government's acquisition value of the vaccines provided to the State. A total of \$7,698,862 related to the acquisition value of vaccines was included in the Schedule.

STATE OF VERMONT
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

(1) Summary of Auditors' Results

- (a) Type of report issued on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- (b) Internal control deficiencies over financial reporting disclosed by the audit of financial statement:
- Material weaknesses: **Yes**
 - Significant deficiencies: **Yes**
- (c) Noncompliance material to the financial statements: **No**
- (d) Internal control deficiencies over major programs disclosed by the audit:
- Material weaknesses: **Yes**
 - Significant deficiencies: **Yes**
- (e) Type of report issued on compliance for major programs: **Unmodified, except for:**

Modified Opinions

SNAP Cluster (CFDA #10.551 and #10.561)
Child Nutrition Cluster (CFDA #10.555 and #10.559)
Child and Adult Care Food Program (CFDA#10.558)
Highway Safety Cluster (CFDA #20.600, #20.601, #20.609, #20.610, #20.613, #20.616)
Race to the Top – Early Learning Challenges (#84.412)
TANF Cluster (CFDA #93.558)
Foster Care – Title IV-E (CFDA #93.658)
Medicaid Cluster (CFDA #93.775, #93.777 and #93.778)
Homeland Security Grant Program (CFDA #97.067)

- (f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**

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(g) Identification of Major Programs

	<u>CFDA number</u>	<u>Name of federal program or cluster</u>
SNAP Cluster	10.551	Supplemental Nutritional Assistance Program
	10.561	State Administrative Matching Grants for the Supplemental Nutritional Assistance Program
Child Nutrition Cluster	10.555	National School Lunch Program
	10.559	Summer Food Service Program for Children
Highway Safety Cluster	20.600	State and Community Highway Safety
	20.601	Alcohol Impaired Driving Countermeasures Incentive Grants I
	20.609	Safety Belt Performance Grants
	20.610	State Traffic Safety Information System Improvement Grants
	20.613	Child Safety and Child Booster Seat Incentive Grants
	20.616	National Priority Safety Program
TANF Cluster	93.558	Temporary Assistance for Needy Families
Medicaid Cluster	93.775	State Medicaid Fraud Control Units
	93.777	State Survey and Certification of Health Care Providers and Suppliers
	93.778	Medical Assistance Program
Disability Insurance/ SSI Cluster	96.001	Social Security – Disability Insurance
Other programs	10.557	Special Supplemental Nutrition Program for Women, Infants and Children
	10.558	Child and Adult Care Food Program
	17.225	Unemployment Insurance
	20.106	Airport Improvement Program
	20.509	Formula Grants for Rural Areas
	84.412	Race to the Top – Early Learning Challenge
	93.568	Low-Income Home Energy Assistance
	96.658	Foster Care – Title IV-E
	93.659	Adoption Assistance
97.067	Homeland Security Grant Program	

Dollar threshold used to distinguish between type A and type B programs:

\$6,166,966

Auditee qualified as low-risk auditee?

_____ Yes X No

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

2017-001 Department of Vermont Health Access Medicaid and CHIP Re-determination of Eligibility

Background

During fiscal 2017, \$1.5 billion in expenditures were incurred in the Global Commitment Fund for human services activities. Funding for the Global Commitment Fund comes from federal grants which are matched with General and Special Fund dollars. A significant portion of these expenditures were for benefit payments made to Medicaid eligible claimants. Under Federal regulations, the State is obligated to annually re-determine the eligibility of individuals participating in the Medicaid and CHIP programs. Each annual re-determination establishes an individual's eligibility to receive Medicaid and/or CHIP benefits prospectively until the next annual evaluation.

Finding

In prior years the State has had significant difficulties performing re-determinations of the Medicaid/CHIP population in the required timeframe. As a result, the State sought and received in November 2015 a waiver of the redetermination and certain other eligibility requirements from the Center for Medicaid Services (CMS). The waiver provided the State relief from specific Federal requirements for the period April 2014 through February 29, 2016 for individuals not subject to the Federal MAGI redetermination process and for the period January 2015 through November 30, 2016 for the individuals subject to the MAGI rules.

Since receiving the waiver in November 2015, the State has been performing eligibility redeterminations in order to comply with the Federal regulations, but had not completed the redeterminations by the February 29, 2016 or November 30, 2016 waiver deadlines. As such, the State continues to be out of compliance with the redetermination regulations for those individuals from March 1, 2016 until the date of the post waiver redetermination for the non-MAGI population and from December 1, 2016 until the date of the post waiver redetermination for the MAGI population. For the period, from March 1, 2016 through June 30, 2017, the State is exposed for \$20.8 million of federal money used to fund claims for individuals that had not had redeterminations within the waiver period. This situation will continue into State fiscal year 2018 and result in a level of exposure until all eligibility redeterminations have been completed.

The State submitted and CMS approved a Mitigation Plan for the State to work towards full compliance with the Medicaid eligibility provisions of the Affordable Care Act. CMS has been monitoring and will continue to monitor the State's compliance with the Mitigation Plan in accordance with the agreed upon timeline. In a letter dated September 13, 2017, CMS confirmed the State is in compliance with the Mitigation Plan; however the Mitigation Plan does not waive compliance with the Federal eligibility rules and as such the State continue to be out of compliance.

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

A similar finding was noted as part of the June 30, 2016 report and was included as finding 2016-001.

This issue also impacts the compliance testwork over the federal Medicaid program and a similar compliance finding has been reported.

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Recommendation

We recommend that the State continue to complete eligibility redeterminations and perform other corrective measures as outlined in the Mitigation Plan approved by CMS. Further, as the noncompliance issue has continued into fiscal 2018 the State will need to quantify its exposure for federally ineligible claims paid for each population since the 2016 waiver deadlines.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

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2017-002 Department of Vermont Health Access Health Exchange Premium Reconciliation and Settlement Costs

Background

Under the Patient Protection and Affordable Care Act (PPACA) 2010 HR3590, or Affordable Care Act (ACA), States had the option to implement a state run health insurance exchange or participate in the federal government exchange. The State of Vermont opted to create a state run exchange which is managed by the Department of Vermont Health Access (DVHA). DVHA has contracted with a third party to operate the premium processing work in support of the Exchange. DVHA provides the third party with participant data which also details how the premium will be covered which may come from up to five sources: federal cost sharing reduction, state cost sharing reduction, federal advanced premium tax credit, state subsidy (i.e. Vermont premium assistance) and member share. The third party is responsible for billing and collecting the state cost sharing reduction, the Vermont premium assistance and the member share and then remitting payment to the insurance carriers. Payments are not remitted to the insurance carriers until 100% of the amounts due are collected from the State and the member.

The State also entered into contracts with health insurers to market Qualified Health Plans (QHP) on the state run exchange. These QHP contracts outlined the responsibilities of the State as well as the health insurers. Under these agreements the State is responsible for determining eligibility for participation in the health exchange as well as Medicaid and for determining allowed tax credits and subsidies and the health insurers are responsible for accepting enrollment as determined by the State and for complying with terminations determined the State and outlined by law.

Finding

Throughout fiscal year 2017, the State continued to have operational challenges implementing the ACA due to system limitations within the State's benefit eligibility system for Medicaid and the State health exchange, Vermont Health Connect (VHC). Due to the on-going functionality issues with VHC, there continue to be eligibility differences between the VHC system, the primary insurance carrier for enrollees under the health exchange (BCBSVT) and the premium invoice processor. The ACA states that when an individual receives an Advanced Premium Tax Credit (APTC), they are given a 90-day grace period for coming into current status with their premium payment balances. After the first 30 days, the carriers pend payment for the next 60 days. If the premiums are not paid, the individual is terminated back to the first day. The carriers are liable for the first 30 days of claims. There continue to be reconciliation inconsistencies, resulting in retroactive terminations beyond the 90-day threshold. Efforts surrounding the reconciliation of enrollment information by both BCBSVT and the State have resulted in disputes regarding rights and obligations under the Qualified Health Plans contract entered into by BCBSVT and the State. As a result of these disputes, the State and BCBSVT have entered into a settlement agreements for calendar years 2015 and 2016 in the amounts of \$3.5 million and \$4.5 million respectively.

Due to the fact that there have been settlements in the past two calendar years and the functionality issues have not been fully corrected, it is possible that there will be a settlement associated with calendar year 2017.

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

A similar finding was noted as part of the June 30, 2016 report and was included as finding 2016-002.

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Recommendation

We recommend that a timely reconciliation of eligibility data between the key systems be performed to ensure that payments are remitted to insurance carriers timely.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

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2017-003 Statewide Review and Analysis of Accounts Receivable

Background

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 in the State's VISION accounting system as well as to provide year-end closing information to the Department of Finance and Management (Finance) in the form of the year end closing packages. Finance provides the individual departments and agencies with annual guidance on generally accepted accounting principles and the form and content of the information that is required in the year end closing packages; but relies on the individual departments and agencies to completely and accurately compile the data.

Finding

The Department of Finance and Management has been working with individual departments and agencies for several years to improve the financial reporting process and reduce the number of data errors and adjustments however, delays in obtaining support for the booked receivables and adjustments to the financial statements continue to be identified through the external audit. The cause of these adjustments is in part due to the need for more financial reporting knowledge in the individual departments and agencies, as well as departments and agencies not having adequate control procedures over the recording of financial data.

In order to capture the receivable data for the financial statements, Finance requires individual departments to prepare a CAFR-1 form. This form is a template that includes VISION chart-field information (i.e. fund, deptid, and account) for all items reported in the previous fiscal year, with subtotals by Business Unit. The departments must determine the full accrual, modified accrual, and an estimate of the uncollectible amount of receivables. They must also report the amount of un-deposited cash on hand, deferred revenue and refund of receipts as of the end of the fiscal year. There are also columns that compare last year's reported amounts to the current year's submitted amounts and if there are large changes in these amounts, there is a column to explain the differences. Along with the CAFR-1 form submission, the department must submit a copy of the procedures used for estimating the allowances for uncollectible receivables. Also included in Finance's year-end closing instructions is the following requirement:

Your department is required to maintain a detail listing to support the receivables reported on the CAFR-1. This listing should be readily available should the receivable be selected for detail testing by the auditor.

During fiscal 2017 we noted several issues relating to receivables across multiple departments and agencies. Specifically,

- 1) The Department of Financial Regulation (DFR) included cash received and deposited on June 30, 2017 related to Insurance Appointment Revenue in the receivable reported on the CAFR-1. This resulted in an overstatement of revenue and receivables within the Special Fund amounting to \$1.1 million.

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- 2) The Department of Vermont Health Access (DVHA) did not properly allocate the allowance related to the Drug Rebate receivable across the Global Commitment, General, and Federal Revenue Funds. This resulted in an overstatement of receivables within the General and Federal Revenue Funds amounting to \$0.3 million and \$0.9 million respectively, and an understatement of receivables within the Global Commitment Fund amounting to \$1.2 million.
- 3) The Vermont Department of Labor (VDOL) was not able to provide a detailed report for the Catamount Healthcare Employer Assessment receivable amount noted on the CAFR-1, due to the fact that the Health Care Contributions receivable report was run 12 days after year end and since this is a point in time report, it did not agree to the amount reported on the CAFR-1.
- 4) The Vermont Judicial Bureau (the Bureau) utilizes a manual process to reconcile all outstanding receivables and prepare the CAFR-1. This process is prone to human error as there are thousands of receivables dating back many years. We noted immaterial variances between detail reports run by the Bureau and the final numbers reported to Finance and Management.

While Finance is primarily responsible for the preparation of the State's financial statements, responsibility for the underlying data and activity resides with the respective departments. The above examples indicate the continued need for more rigorous oversight and review of data submitted to ensure that the State's financial statements are complete and accurate.

The finding is considered a significant deficiency in internal controls.

A similar finding was noted as part of the June 30, 2016 report and was included as finding 2016-006.

Recommendation

We recommend that the Department of Finance and Management work with the departments to perform a comprehensive review of their policies and procedures for recording year end receivables to help ensure that the State's financial statements are complete and accurate. Finance should work with each department to provide them with the knowledge and guidance relating to financial accounting and reporting concepts.

We also recommend that individual departments and agencies carefully review amounts reported on the CAFR-1 to ensure completeness and accuracy prior to submission to the Department of Finance and Management.

We further recommend that the Department of Finance and Management evaluate its procedures for reviewing year end closing packages and for analyzing data for completeness and accuracy of financial information received.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

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2017-004 Agency of Transportation Department of Motor Vehicles – Revenue Classification

Background

The Department of Motor Vehicles (DMV) collects the following various major forms of revenue within the Transportation Fund (note: this is not an all-inclusive list of revenue collected by the DMV):

- **Motor Fuel Tax:** This tax is assessed on each gallon of motor fuel sold in the State of Vermont.
- **Purchase and Use Tax:** This tax is assessed on vehicles registered in the State of Vermont based on purchase price or book value, whichever is higher.
- **Diesel Fuel:** This tax is assessed on each gallon of diesel fuel sold in the State of Vermont which is not exempt for taxation. On each gallon of fuel, a 25 cent tax, a one cent fee dedicated to the petroleum cleanup fund and a three cent motor fuel transportation infrastructure assessment.
- **Motor Fuel Gasoline Taxes and Assessments:** Fees charged for each gallon of gasoline sold in the State of Vermont. On each gallon of motor fuel sold by a distributor, a 12.1 cent tax, a one cent fee dedicated to the petroleum cleanup fund, a 4% assessment of the retail price (exclusive of state and federal taxes), and a 2% motor fuel transportation infrastructure assessment (exclusive of state and federal taxes) is assessed on each gallon of motor fuel sold by licensed distributors in the state, except for gallons of fuel sold between distributors licensed in the state.
- **Automobile Licenses and Registration:** Charges assessed to drivers allowing them to operate automobiles.

These major forms of revenue are collected by DMV through walk-in customers, by mail, by payments made online, or through the use of a bank lockbox.

For revenue received from walk-in customers, DMV Customer Service Specialists use a different form for each type of revenue to calculate the amount due and the revenue is recorded in the Point of Sale (POS) system. The total revenue per the POS is reconciled to the deposit and the Quality Control department gets the daily batches ready for data entry into Phoenix, DMV's IT System which includes ensuring that the appropriate coding was used for each transaction, before the batch is forwarded to Data Entry for keying into the system. The revenue is entered into Phoenix at the detail level as coded on the form initially prepared by the DMV Service Specialist.

Each revenue amount is keyed into the system using specific revenue code numbers for each type of revenue.

Finding

During our testwork, we selected 45 revenue sample items at the DMV within the Transportation Fund and in 3 instances noted the cash collected was recorded as revenue, however, the wrong type of revenue was recorded in the Transportation Fund due to the revenue account code being miss-keyed and the review process not being detailed enough to identify such errors. These errors did not impact total revenue within the Transportation Fund, but rather the types of revenue within the Transportation Fund.

The finding is considered to be a significant deficiency.

A similar finding was noted as part of the June 30, 2016 report and was included as finding 2016-007.

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Recommendation

We recommend the Department of Motor Vehicles review its policies and procedures for recording the various types of revenue to ensure that the revenue collected is accurately recorded.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

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(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2017-005

U.S. Department of Agriculture

Program Name and CFDA Number

SNAP Cluster

Supplemental Nutritional Assistance Program (CFDA #10.551)
State Administrative Matching Grants for the Supplemental Nutritional Assistance Program
(CFDA #10.561)

Program Award Number and Year

4VT430426	10/1/2014–9/30/2017
4VT430426	10/1/2015–9/30/2016

Criteria

Allowability – 2 CFR Section 200.503 require that nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal statutes, regulations, and the terms and conditions of the federal award. The objectives of internal control over the compliance requirements for federal awards are found in 2 CFR Section 200.62 and include ensuring that transactions are executed in compliance with federal statute, regulations and terms and conditions of the federal award that could have a direct and material effect on a program. This includes ensuring that expenditures are allowable.

Special Tests and Provisions – State agencies are required to automate their Supplemental Nutritional Assistance Program (SNAP) operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP (7 CFR Sections 272.10 and 277.18). This includes: (1) processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration; (2) providing an automatic cutoff of participation for households which have not been recertified at the end of their certification period by reapplying and being determined eligible for a new period (7 CFR Sections 272.10(b)(1)(iii) and 273.10(f) and (g)); and (3) generating data necessary to meet Federal issuance and reconciliation reporting requirements.

Condition Found

The State Agency responsible for the SNAP program is required to obtain the proper documentation/verification (identification) from the participant when they apply for assistance in order to determine if the individual is eligible for benefits and that the benefit payment to the participant is calculated appropriately. During our testwork over the participant benefit determination process, we noted the following:

- A. As part of the benefit determination process, documentation is obtained to support the amount of rent that the participant pays on a monthly basis. This information is a factor in determining the shelter deduction portion of the monthly benefit calculation. For 1 of 40 participants selected for testwork, we

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noted that the shelter expense used in the participant's monthly benefit calculation did not agree to supporting documentation and was \$3 more than the actual monthly expense incurred by the participant, resulting in a higher shelter deduction. We noted that the error however did not impact the participant's benefit payment.

- B. For 2 of 40 participants selected for testwork, the participant's earned income used in the monthly benefit calculation was inaccurate. Specifically we noted the following:
- a. For 1 of 2 participants, the earned income used for the monthly benefit calculation was \$125 greater than actual earned income.
 - b. For 1 of 2 participants, the earned income used for the monthly benefit calculation was \$101 greater than actual earned income.

While the earned income was overstated in both cases, the benefit amount paid to both participants was the maximum amount that could have been paid, and as such, the error did not have an impact on each participant's paid benefits.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2016 audit report.

Cause

The cause of the condition found is primarily due to insufficient internal control to ensure that the data used in the benefit determination process is accurate.

Effect

The effect of the condition found is that an error in the benefit determination process could be made resulting in unallowable costs charged to the program.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department for Children and Families implement policies and procedures to ensure that benefit determinations are sufficiently reviewed, that the information used is accurate, and that it agrees to supporting documentation.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

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Finding 2017-006

U.S. Department of Agriculture

Program Name and CFDA Number

SNAP Cluster

Supplemental Nutritional Assistance Program (CFDA #10.551)
State Administrative Matching Grants for the Supplemental Nutritional Assistance Program
(CFDA #10.561)

Program Award Number and Year

4VT430426	10/1/2014–9/30/2017
4VT430426	10/1/2015–9/30/2016

Criteria

States must have systems in place to reconcile all of the funds entering into, exiting from, and remaining in the system each day with the State's benefit account with Treasury and the Electronic Benefit Transfer (EBT) contractor records. This includes a reconciliation of the State's issuance files of postings to recipient accounts with the EBT contractor. States (generally through the EBT contractor that operates the EBT system) must also have systems in place to reconcile retailer credit activity as reported into the banking system to client transactions maintained by the processor and to the funds drawn down from the EBT benefit account with Treasury. States' EBT system processors should maintain audit trails that document the cycle of client transactions from posting to point-of-sale transactions at retailers through settlement of retailer credits. The financial and management data that comes from the EBT processor is reconciled by the State to the Supplemental Nutritional Assistance Program (SNAP) issuance files and settlement data to ensure that benefits are authorized by the State and funds have been properly drawn down. States may only draw Federal funds for authorized transactions, i.e., electronic point-of-sale purchases supported by entry of a valid personal identification number (PIN) or purchases using manual vouchers with telephone verification supported by a client signature and an EBT contractor authorization number (7 CFR Sections 274.3(a)(1) and 274.4(a)).

Condition Found

The Department for Children and Families (the Department) has entered into a contract with a third party service organization to manage and operate the SNAP EBT card processing. The Department determines participant eligibility and authorizes benefits to be issued to a magnetic strip card, or the EBT card, where it is used at point-of sale devices in retail stores. Each participant is authorized to receive a certain dollar amount to be utilized for food purchases.

The third party service organization is responsible for the overall quality, security and integrity of the processing of the point-of sale transactions of the EBT cards. The third party service organization provides reports to the Department to assist in the daily settlement process in order to ensure that the transactions processed are complete and accurate as well as reports that are used to initiate the federal cash draw process from the State of Vermont's benefit account to reimburse the third party service organization for the net EBT settlement costs.

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During our testwork over the EBT reconciliation process, we noted that while the Department performs the required daily reconciliation between EBT daily settlement activity and the daily request for reimbursement from the federal benefit account, the Department currently does not perform an independent review to ensure that the daily reconciliations are completed and that the reconciliation is complete and accurate.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was identified as a finding within the June 30, 2016 audit report and was reported as finding 2016-012.

Cause

The cause of the condition found is primarily due to insufficient internal controls to ensure that an independent third party review is performed over the reconciliation process. In response to a similar finding in the prior year, the Department implemented a corrective action plan that included a supervisory review process over the daily EBT reconciliations, however the corrective action plan was not implemented until after the year ended June 30, 2017.

Effect

The effect of the condition found is that an error could be made within the reconciliation process and the Department does not have procedures in place to identify the error timely.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department implement policies and procedures to ensure the daily EBT reconciliations are performed accurately and completely and that there is a secondary review over the reconciliations.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

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Finding 2017-007

U.S. Department of Agriculture

Program Name and CFDA Number

SNAP Cluster

Supplemental Nutritional Assistance Program (CFDA #10.551)
State Administrative Matching Grants for the Supplemental Nutritional Assistance Program
(CFDA #10.561)

Program Award Number and Year

4VT430426	10/1/2014–9/30/2017
4VT430426	10/1/2015–9/30/2016

Criteria

Reporting – FNS-209 – Status of Claims Against Households (OMB No. 0584-0069). If a household receives more SNAP benefits than it is entitled to receive, the State must establish a claim against that household and demand repayment (7 CFR Section 273.18(a)). The State is required to create and maintain a system of records for monitoring these claims against households. These State systems generate the data entered on the FNS-209 report. The minimum requirements for such systems are listed at 7 CFR Section 273.18(m). The State is permitted to retain a portion of the collected repayments: 35% of the recovered funds from claims involving fraud or other intentional program violations; 35% of the funds recovered from claims generated by inadvertent household errors, collected by reducing a person's unemployment compensation benefits; and 20% of the recovered funds from inadvertent household error claims collected by other means. No portion of funds recovered from agency-error overpayments may be retained (7 CFR Section 273.18(k)).

2 CFR Section 200.303 requires that nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal statutes, regulations, and the terms and conditions of the Federal award. The objectives of internal control over the compliance requirements for federal awards are found in 2 CFR Section 200.62 and include ensuring that transactions are executed in compliance with federal statutes, regulations, and the terms and conditions of the federal award that could have a direct and material effect on a federal program. This includes ensuring that federal reports are complete and accurate.

Condition Found

During our testwork over the September 30, 2016 and June 30, 2017 quarterly FNS-209 – Status of Claims Against Households Reports, we noted the beginning balances per the reports did not reconcile to supporting documentation. The Department for Children and Families (the Department) noted that the variances were due to adjustments made as part of the reporting process. The Department provided additional documentation to support these adjustments, however, we were unable to validate the accuracy of the beginning balances reported based on the additional documentation provided. Upon further investigation, the Department concluded that the above noted adjustments had been incorrectly applied which resulted in inaccurate beginning balances being reported on the FNS-209 for both quarters.

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The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2016 audit report.

Cause

The cause of the condition found is primarily due to insufficient internal control to ensure that the data used in preparation of the report is complete and accurate prior to submission of the report.

Effect

The effect of the condition found is that inaccurate data was reported on the FNS-209 Status of Claims Against Household Report.

The condition found appears to be systemic in nature and is considered a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Department review its existing procedures for preparing the federal report to ensure that the data contained within the report is complete, accurate, and properly supported by sufficient documentation.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

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Finding 2017-008

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster

National School Lunch Program (CFDA #10.555)
Summer Food Service Program for Children (CFDA #10.559)

Program Award Number and Year

201616N109844	7/1/15–9/30/16
201616N109744	7/1/15–9/30/16
201717N109844	7/1/16–9/30/17
201717N109744	7/1/16–9/30/17

Criteria

Sponsors are not required to separately report operating and administrative costs, although they must maintain records of them. Sponsor reimbursement is no longer related to operating and administrative cost comparisons; it is determined solely by applying the applicable meals multiplied by the applicable reimbursement rates. Separate rates are used to compute reimbursement for operating and administrative costs, but a sponsor can use its entire reimbursement payment for any combination of operating and administrative costs (Title VII, Section 738 of Pub. L. No. 110 161, December 26, 2007). Claims for reimbursement are required to be submitted within 60 days (7 CFR 210.9(b)(1)).

Condition Found

The amounts paid to a subrecipient represent the total of the claims submitted by the individual school food authorities (SFA). SFA's are required to submit claims for reimbursement through the Agency of Education's (the Agency) payment system. During our testwork over allowability, we noted that for 4 of 20 SFA's selected for testwork, their September 2016 claims were not submitted to the Agency within the required 60 day timeframe. For each of these SFA's, their claims were submitted in December 2016. As the request for payment was received after the 60 day timeframe, federal funds should not have been used.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2016 audit report.

Cause

The cause of the condition found is primarily due to insufficient management controls related to the monitoring of the submission of claims by each SFA.

Effect

The effect of the condition found is that the Agency paid for claims which were unallowable under federal regulations as the SFA did not submit the request reimbursement within the 60 day window.

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The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

\$145,744

Recommendation

We recommend that the Agency review its existing claims reimbursement process and implement controls to ensure that claims are submitted timely.

Views of Responsible Officials

We disagree with the finding as stated above. We agree with the fact that claims were submitted late to the system but want to clarify that there were ongoing issues from the implementation of the Colyar system upgrade that impacted claim submission and application processing during the spring, summer and fall of 2016. Our detailed corrective action plan is described in Appendix I.

Rejoinder

7 CFR 210.9(b)(1) states that claims for reimbursement are required to be submitted within 60 days. For each of the 4 payments identified within the condition found, the request for reimbursement was received subsequent to the 60 day requirement and should not have been paid for using federal funds.

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Finding 2017-009

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster

National School Lunch Program (CFDA #10.555)
Summer Food Service Program for Children (CFDA #10.559)

Program Award Number and Year

201616N109844	7/1/15–9/30/16
201616N109744	7/1/15–9/30/16
201717N109844	7/1/16–9/30/17
201717N109744	7/1/16–9/30/17

Criteria

U.S. Department of the Treasury (Treasury) regulations at 31 CFR part 205 implement the Cash Management Improvement Act of 1990 (CMIA), as amended (Pub. L. No. 101-453; 31 USC 6501 et seq.). Subpart A of those regulations requires State recipients to enter into Treasury-State Agreements that prescribe specific methods of drawing down Federal funds (funding techniques) for Federal programs listed in the Catalog of Federal Domestic Assistance that meet the funding threshold for a major Federal assistance program under the CMIA. Treasury-State Agreements also specify the terms and conditions under which an interest liability would be incurred. Programs not covered by a Treasury-State Agreement are subject to procedures prescribed by Treasury in subpart B of 31 CFR part 205 (subpart B), which at 31 CFR Section 205.33(a) include the requirement for a State to minimize the time between the drawdown of Federal funds and their disbursement for Federal program purposes.

Condition Found

During our testwork over cash management, we noted that the Agency of Education (the Agency) under the State of Vermont's CMIA agreement is required to drawdown its federal funds for the National School Lunch Program based upon bi-weekly actual expenditures. During our testwork over the cash draw process, we noted that the Agency performed 10 cash draws for the year ending June 30, 2017 and did not comply with the draw pattern established within the CMIA agreement. While the timing of the cash draws did not comply with the draw pattern established within the CMIA agreement, the cash draws did appear to have been drawn on a reimbursement basis.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2016 audit report.

Cause

The cause of the condition found is primarily a result of insufficient procedures to ensure that drawdowns are performed timely.

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Effect

The effect of the condition found is that expenditures are not being reimbursed in a timely manner and as such State General funds are being utilized in place of available federal funds.

The condition found appears to be systemic in nature and is considered a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Agency review its existing procedures and develop controls to ensure that drawdowns are performed timely in accordance with the State's CMIA agreement.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

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Finding 2017-010

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster

National School Lunch Program (CFDA #10.555)
Summer Food Service Program for Children (CFDA #10.559)

Program Award Number and Year

201616N109844	7/1/15–9/30/16
201616N109744	7/1/15–9/30/16
201717N109844	7/1/16–9/30/17
201717N109744	7/1/16–9/30/17

Criteria

- A. Administering agencies may disburse program funds only to those organizations that meet eligibility requirements. Under the National School Lunch Program (NSLP), School Breakfast Program (SBP), and Special Milk Program (SMP), this means the definition of “school food authority” (SFA) as described at 7 CFR Sections 210.2, 215.2, and 220.2, respectively. Eligible Summer Food Service Program (SFSP) organizations are described at 7 CFR Section 225.2 under the definition of “sponsor.” Additional organizational eligibility requirements apply to the SFSP, NSLP Afterschool Snacks, and the SBP at the school or site level.
- B. A pass-through entity (PTE) must clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR Section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR Section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR Section 200.331(a)(3)).
- C. General Reviews

State agencies administering the programs included in the Child Nutrition Cluster are required to perform specific monitoring procedures in accordance with 7 CFR Sections 210.18, 210.19(a)(4), 220.8(j), 220.8(o)(9), and 220.13(f) (NSLP and SBP); 7 CFR Section 215.11 (SMP); and 7 CFR Section 225.7 (SFSP). Section 207 of HRFKA amended Section 22 of the Richard B. Russell National School Lunch Act (42 USC 1796c) by requiring FNS to prescribe and administer a “unified system to ensure that local food service authorities participating in the [NSLP and SBP] comply with those Acts” FNS developed a State administrative review process that (1) combined elements of the existing Coordinated Review Effort (CRE) and School Meals Initiative (SMI) review processes; (2) accounted for the transition from a 5-year to a 3-year review cycle; and (3) incorporated review of the SBP for any SFA that operates both programs. The unified administrative review system is prescribed by 7 CFR Section 210.18. Beginning with the 2013-14 school year, FNS authorized State

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agencies to either (1) adopt the new administrative review process in its entirety; or (2) continue using the existing CRE process in its entirety, plus a weighted nutrient analysis.

a. Administrative Reviews

An administrative review is the comprehensive on-site evaluation of a SFA operating the NSLP/SBP. Every SFA must receive an administrative review during each review cycle.

b. Follow-Up Reviews

A follow-up review is an on-site inspection of a SFA, subsequent to an administrative review, to ensure that the SFA has corrected deficiencies disclosed by the administrative review. Follow-up reviews are not required for State agencies opting to use the new administrative review procedures. However, for those State agencies continuing to use CRE procedures, follow-up reviews are required as outlined in 7 CFR Section 210.18(i).

c. Additional Administrative Reviews (AAR)

State agencies are required to make AARs of selected LEAs that have a demonstrated level of, or are at high risk for, administrative error. AARs are in addition to regular cyclical administrative reviews.

Section 207 of the HHFKA (implemented by amendments to 7 CFR Sections 210.18(c)(1) and (2) in 77 FR 4088, January 26, 2012) changed the administrative review cycle from 5 years to 3 years, effective July 1, 2013. The 2012-13 school year was the final year of the final 5-year cycle; the 2013-14 school year was the first year of the new 3-year cycle (42 USC 1769c(b)(3) and 42 USC 1776(h); 7 CFR Section 210.18).

D. Certification Activity

In addition to the subrecipient monitoring requirements above, State agencies administering the NSLP and SBP are required to conduct certification activity. The objective of such activity is to ensure that SFAs are complying with the updated nutritional standards mandated by Section 201 of the HHFKA. Before providing the performance-based reimbursement (currently 6 cents per lunch served) to SFAs, a State agency must certify that SFAs can demonstrate that they are serving school meals that meet the updated nutritional standards. SFAs have three options to demonstrate compliance. Options 1 and 2 entail State agency desk reviews of documentation submitted by SFAs. Option 1 documentation includes menus and nutrient analysis, while option 2 documentation consists of menus and a simplified nutrient analysis. For option 3, SFAs can be certified over the course of a regular State agency-conducted administrative review, if the State offers that option. This type of review is required only one time per SFA (7 CFR Section 210.7(d)).

E. Evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR Section 200.331(b)).

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- F. Sponsors are not required to separately report operating and administrative costs, although they must maintain records of them. Sponsor reimbursement is no longer related to operating and administrative cost comparisons; it is determined solely by applying the applicable meals times rates formula. Separate rates are used to compute reimbursement for operating and administrative costs, but a sponsor can use its entire reimbursement payment for any combination of operating and administrative costs (Title VII, Section 738 of Pub. L. No. 110-161, December 26, 2007).
- G. Non-Federal entities are prohibited from making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include 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 criteria as specified in 2 CFR Section 180.220. All nonprocurement transactions entered into by a pass-through entity (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR Section 180.215.
- H. A SFA is required to account for all revenues and expenditures of its nonprofit school food service in accordance with State requirements. A SFA must operate its food services on a nonprofit basis; all revenue generated by the school food service must be used to operate and improve its food services (7 CFR Sections 210.14(a), 210.14(c), 210.19(a)(2), 215.7(d)(1), 220.2, and 220.7(e)(1)(i)).
- I. A SFA participating in the NSLP is required to ensure that sufficient funds are provided to its nonprofit school food service accounts from lunches served to students not eligible for free or reduced price meals. A SFA currently charging less for a paid lunch than the difference between the Federal reimbursement rate for such a lunch and that for a free lunch is required to comply. This difference is known as "equity." There are two ways to meet this requirement: (a) by raising the prices charged for paid lunches; or (b) through contributions from other non-Federal sources. SFAs with an average weighted price at or above equity (currently \$2.65 for school year 2014-15) have already met the requirement (42 USC 1760(p); 7 CFR Sections 210.14(a) and 210.14(e)).

Condition Found

During our testwork over the subrecipient monitoring process utilized by the Vermont Agency of Education (the Agency), we noted the following:

Application Reviews (Eligibility and Suspension and Debarment)

During our testwork over the Agency's process to review applications to determine eligibility for School Food Authorities (SFA or subrecipient), we noted the following:

- A. For 2 of 20 SFA's and 4 of 40 sites selected for testwork, the Supervisory Union and Site application for the Summer Food Service Program for Children did not include a suspension and debarment clause for the site to attest to as part of the application process.
- B. For 17 of 40 site applications selected for testwork, the application for the subrecipient was created and/or modified by an Agency consultant. The Colyar software used by the Agency to manage the program contains a log of changes to the application packet, however, we were unable to verify the changes were appropriate and authorized by the site.

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- C. For 4 of 20 SFA applications selected for testwork, we noted the application was modified and/or created by an Agency consultant. Per review of the show changes option in Colyar, we were unable to verify the changes were appropriate and authorized by the SFA.

Award Identification (Subrecipient Monitoring)

During our testwork over award identification, we noted the following:

- D. For all 40 sites selected for testwork, the FAIN number, CFDA 10.555 and DUNS number were properly communicated, however all other required communications appeared to be missing.
- E. For all 20 SFAs selected for testwork, only the DUNS number was communicated; all other required communications appeared to be missing.

During the Award Monitoring (Subrecipient Monitoring)

During our testwork over during the award monitoring, we noted the following regarding the Agency's program monitoring visits:

- F. The Agency requires all SFAs to be monitored on a 3 year cycle. For 2 of 20 monitoring reviews selected for testwork, while the SFAs were scheduled for review during the fiscal year ending June 30, 2017 there was no evidence to support that a review had taken place.
- G. Upon completion of the monitoring review, the Agency sends the SFA a summary of the review. For 1 of 20 monitoring reviews selected for testwork, the summary letter for the administrative review was in the file, however, it was not signed or dated. As such, we were unable to verify when/if it was sent to the subrecipient. Additionally, we were unable to determine when corrective actions were due as the letter was not dated.
- H. Upon closure of the full review, the Agency sends the SFA a close out letter. For 3 of 20 monitoring reviews selected for testwork, we noted that the Agency did not issue a closure letter.
- I. For 1 of 20 monitoring reviews selected for testwork, the corrective actions from the SFA were not received by the Agency within the required 30 days. There was no documentation to support the Agency had followed up on the late corrective actions.
- J. For 1 of 20 monitoring reviews selected for testwork, we noted there was no documentation to support if an exit conference had been held with the SFA, if an initial summary letter had been sent to the SFA, or if corrective actions had been received and reviewed timely.
- K. For 3 of 20 monitoring reviews selected for testwork, we were unable to obtain documentation to support whether or not a fiscal action was required to be taken as a result of the review and if so, if the action was properly taken by the Agency.
- L. For 1 of 20 monitoring reviews selected for testwork, we noted it appeared that the Agency was required to take a fiscal action against the SFA, however, we were unable to obtain documentation to support that the fiscal action was properly taken.

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- M. For 1 of 20 monitoring reviews selected for testwork, we noted while the Resource Management Form (the Form) was included in the monitoring review documentation, not all of the questions contained within the Form (questions 704 & 709) were answered. As such, we were unable to determine if an appropriate review had been performed over the School Food Accounts and Paid Lunch Equity compliance requirements.

Risk Assessments (Subrecipient Monitoring)

- N. For all 20 subrecipients selected for testwork, we noted the grant agreement was executed after the effective implementation date of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance) and the State of Vermont Agency of Administration Bulletin No. 5, Policy for Grant Issuance and Monitoring (Bulletin 5). Under the requirements of the Uniform Guidance, the Agency is required to evaluate each subrecipient's risk of noncompliance for the purposes of determining the appropriate subrecipient monitoring related to the subaward. In addition, Bulletin 5 requires that unless prohibited by statute or regulation, and prior to the issuance of a grant award, the Agency must determine if each potential grantee is eligible to receive an award and shall not issue an award to an ineligible organization (pre-award eligibility determination). For all 20 subrecipients, we noted the Agency did not complete either a pre-award eligibility determination in accordance with Bulletin 5 or a risk assessment as required by the Uniform Guidance.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was identified as a finding within the June 30, 2016 audit report and was reported as finding 2016-014.

Cause

The cause of the condition found is primarily due to insufficient procedures related to the entire monitoring process over subrecipients, including the review and approval of applications, notification of federal funding awarded, as well as the documentation and completion of during the award monitoring procedures. In addition, the Agency does not have policies and procedures in place to perform pre-award eligibility determination risk assessments for SFA's as the Agency indicated they did not believe it was required as the federal program is an entitlement program.

Effect

The effect of the condition found is that the Agency may not perform the required follow-up actions and obtain all pertinent information from the subrecipient as part of the application process. In addition, instances of noncompliance identified through its monitoring process may not be communicated timely, and as a result, the Agency cannot follow up on its recommendations in a timely manner. Finally, the types and frequency of monitoring procedures performed may not be adequate as the Agency has not performed a risk assessment over the SFAs.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

None.

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Recommendation

We recommend that the Agency:

- A. Review its existing monitoring procedures and develop controls to ensure that risk assessment procedures are performed timely over subrecipients. These procedures should ensure that subrecipient monitoring procedures performed are linked to the specific risks identified as part of the risk assessment process.
- B. The Agency develop written procedures to ensure Uniform Guidance required communications are formally communicated to each subrecipient who participates in the program.
- C. The Agency review its existing programmatic monitoring procedures and develop controls to ensure that all procedures are performed timely and are properly documented. The written procedures should ensure that all required documentation is compiled and maintained to support each monitoring visit and whether or not matters identified during the review require corrective action. Further, a supervisory review should be conducted to ensure each file is complete prior to closure.

Views of Responsible Officials

We agree with the conditions found in this finding except for Item D under Award Identification (and under Item B in the Recommendation). On January 17, 2018 communication was sent to the Federal USDA – Food & Nutrition Services' financial office for clarification of this finding and we are awaiting a written response. During a phone call with the USDA New England Regional Office on January 24, 2018, we received verbal confirmation that the school nutrition funds were entitlement grants and not subject to many of the identification requirements as other grant awards due to the inability to ascertain much of the information prior to claim submission. Our detailed corrective action plan is described in Appendix I.

Rejoinder

As identified within the criteria, 2 CFR Section 200.331(a)(1) requires that the pass-through entity clearly identify to the subrecipient specific information and the Agency does not have procedures in place to communicate the required information at any time during the award period.

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Finding 2017-011

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster

National School Lunch Program (CFDA #10.555)
Summer Food Service Program for Children (CFDA #10.559)

Program Award Number and Year

201616N109844	7/1/15–9/30/16
201616N109744	7/1/15–9/30/16
201717N109844	7/1/16–9/30/17
201717N109744	7/1/16–9/30/17

Criteria

The state is required to contribute state appropriated funds amounting to at least 30% of the funds it received under Section 4 of the National School Lunch Act (NSLA) in the school year beginning July 1, 1980, unless otherwise exempted by 7 CFR Section 210.17.

Condition Found

On an annual basis, the Vermont Agency of Education (the Agency) makes a payment of state funds to each School Food Authority (SFA) that is considered to be the State's required matching funds. The amount paid to each SFA is based on that SFA's percentage of claims incurred relative to the entire program. For example, if SFA XYZ accounts for 10% of all claims paid under the program, then the Agency will pay 10% of its required match to SFA XYZ. State match payments are reported like all other school food service account funds in the SFA's annual financial report as nonprofit food service account revenues. During our testwork, we selected 20 state match payments and noted the following:

- A. For 2 of 20 SFA's selected for testwork, we noted the SFA did not submit their 2016-2017 financial report to the Agency and as such, we were unable to reconcile the match reported by the State and included in VISION to that reported by the SFA.
- B. For 6 of 20 SFA's selected for testwork, we were unable to reconcile the amount reported on the SFA's 2016-2017 financial report to the amount reported by the Agency and included in the VISION system.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was identified as a finding within the June 30, 2016 audit report and was reported as finding 2016-016.

Cause

The cause of the condition found is that the Agency does not review the matching amounts the School Food Authority reports in their annual financial report to verify they agree with the amounts sent to them.

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Effect

The effect of the condition found is that the Agency may not be accurately reporting matching expenditures and thus may not be in compliance with the federal match requirement.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency review its existing procedures to ensure that there are adequate controls and procedures in place to ensure funds paid to subrecipients for matching purposes are adequately documented and reconciled to ensure the federally required match has been met.

Views of Responsible Officials

The Agency disagrees with the wording of the cause of the condition. Agency staff do verify the matching amounts in the SFA reports. The cause of the condition is based on, we believe, two factors – 1) time lag between reporting from AOE to the SFA and the filing of the financial report by the SFA and 2) a lack of understanding by the school personnel filling out the financial report of the implication of having an incorrect number in the State Match field. While the Agency disagrees with the wording of the cause of the condition, we do not disagree with the effect of that condition and our corrective action plan is found in Appendix I.

Rejoinder

As noted within the condition found, we were unable to reconcile the amount reported on the 2016-2017 financial report to the VISION system for 6 of 20 SFAs selected for testwork. In addition 2 of 20 SFA's selected for testwork did not submit a financial report. Given the exceptions noted, there does not appear to be a sufficient process in place to review the matching amounts that the SFA reports in their annual financial report to verify that the amount agrees to the amount sent to the SFA as reported within the VISION system.

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Finding 2017-012

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster

National School Lunch Program (CFDA #10.555)
Summer Food Service Program for Children (CFDA #10.559)

Program Award Number and Year

201616N109844	7/1/15–9/30/16
201616N109744	7/1/15–9/30/16
201717N109844	7/1/16–9/30/17
201717N109744	7/1/16–9/30/17

Criteria

Distributing and subdistributing agencies (as defined at 7 CFR Section 250.3) must maintain accurate and complete records with respect to the receipt, distribution, and inventory of United States Department of Agriculture (USDA) donated foods including end products processed from donated foods. Failure to maintain records required by 7 CFR Section 250.16 shall be considered prima facie evidence of improper distribution or loss of donated foods, and the agency, processor, or entity may be required to pay USDA the value of the food or replace it in kind (7 CFR Sections 250.16(a)(6) and 250.15(c)).

Distributing and subdistributing agencies shall take a physical inventory of all storage facilities. Such inventory shall be reconciled annually with the storage facility's inventory records and maintained on file by the agency that contracted with or maintained the storage facility. Corrective action shall be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency (7 CFR Section 250.14(e)).

Condition Found

The Vermont Agency of Education (the Agency) acts as the State Distributing Agency for the USDA Donated foods under the Child Nutrition Cluster. The commodities received by the Agency are ultimately distributed to School Food Authorities (SFA) throughout the State of Vermont (the State).

Annually the Agency enters into a \$0 contract with a third party vendor to warehouse the brown box USDA Foods once they are delivered to the State. The third party vendor utilizes an inventory system, referred to as the TRACS system, to keep inventory of the commodities in the warehouse and to show by SFA the number of cases of each commodity item distributed. While the quantity of items is maintained in TRACS, the system does not track the value of commodity items. The value of commodities and the number of commodity items are tracked through the USDA's Web Based Supply Chain Management (WBSCM) system. Annually the Agency performs a process by which they notify each SFA's of the value of their commodities received.

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During our testwork to over the management of commodities, we noted the following:

- A. The Agency does not have policies and procedures in place to reconcile the records per the WBSCM "SDA Entitlement Summary Report" to the WBSCM "Value of Commodities Received Report" As a result, we noted that the Agency did not accurately report within the Value of Commodities Received Reports sent to each SFA annually the correct value of commodities received for the year ended June 30, 2017 for 2 of 20 SFAs selected for testwork. In both instances the value of the commodities was overstated. We noted the errors were identified as part of the audit process.
- B. As part of our audit, we were unable to reconcile the value of the commodities reported on the Schedule of Expenditures of Federal Awards (SEFA) to supporting documentation. Upon further inquiry with the Agency, the Agency determined that there were 4 commodities with a value of \$37 that were not reallocated during the year to the appropriate SFA which resulted in an additional error on the Value of Commodities Received Reports referred to in Bullet A above. We noted that the error was discovered as part of the audit process.
- C. For 12 of 20 SFA's selected for testwork, we noted there was a variance between the number of cases of commodities received by the SFA per the TRACS report compared to the WBSCM report. We noted these variances were due to either an error which was undetected by the Agency, an error in which the Agency was unable to determine the root cause, or an error in which the Agency was able to determine a root cause for part of the variance noted however, it was an error which was undetected by the Agency.
- D. The Agency is required by the USDA to perform an annual inventory as one of the requirements related to the value of USDA foods. We reviewed the inventory documents and USDA Foods Storage Facility checklist, both performed in June 2017 and noted the Agency had indicated a variety of shortages which would be corrected with credits to the SFA's accounts. However, the value of these credits were not sent to the third party vendor to process to the accounts until November of 2017. Further, these were only caught as a result of fiscal year 18 shortages and the audit process.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2016 audit report.

Cause

The cause of the condition found is that the Agency does not have any internal controls in place to reconcile the WBSCM to the TRACS system on a regular basis during the year.

Effect

The effect of the condition found is that the Agency may not be accurately reporting the value of food received to both the SFA's and on the SEFA.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

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Questioned Costs

Not determinable.

Recommendation

We recommend that the Agency implement policies and procedures to ensure that there are adequate controls in place so that USDA foods are properly tracked, reconciled, and reported.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

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Finding 2017-013

U.S. Department of Agriculture

Program Name and CFDA Number

Child and Adult Care Program (CFDA #10.558)

Program Award Number and Year

201615N202044	07/01/2015–09/30/2016
201615N105044	07/01/2015–09/30/2016
201616N105044	07/01/2015–09/30/2016
201616N202044	07/01/2015–09/30/2016
201716N109044	07/01/2016–09/30/2017
201716N105044	07/01/2016–09/30/2017
201716N202044	07/01/2016–09/30/2017
201717N202044	07/01/2016–09/30/2017
201717N109044	07/01/2016–09/30/2017
201616N109044	07/01/2015–09/30/2016
201717N105044	07/01/2016–09/30/2017

Criteria

A pass through entity (PTE) is required to:

1. Clearly identify to the subrecipient: (1) the award as a subaward at the time of subaward (or subsequent subaward modification) by providing the information described in 2 CFR Section 200.331(a)(1); (2) all requirements imposed by the PTE on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the award (2 CFR Section 200.331(a)(2)); and (3) any additional requirements that the PTE imposes on the subrecipient in order for the PTE to meet its own responsibility for the Federal award (e.g., financial, performance, and special reports) (2 CFR Section 200.331(a)(3)).
2. Evaluate each subrecipient's risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward (2 CFR Section 200.331(b)).

Condition Found

During our testwork over the subrecipient monitoring process utilized by the Vermont Agency of Education (the Agency), we noted the following:

Award Identification (Subrecipient Monitoring)

- A. We noted that for all 20 institution and 40 site applications selected for testwork, the Agency did not properly communicate all the required award information.

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During the Award Monitoring (Subrecipient Monitoring)

- B. We noted that for 1 of 20 institutions selected for testwork, the Uniform Guidance Audit submitted by the institution erroneously grouped the Child and Adult Care Food Program expenditures with the Child Nutrition Cluster expenditures. There was no documentation to support the Agency had noted this during their review of the report or any indication they had communicated with the institution regarding this error.

Risk Assessments (Subrecipient Monitoring)

- C. For all 20 subrecipients selected for testwork, we noted the grant agreement was executed after the effective implementation date of the Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance) and the State of Vermont Agency of Administration Bulletin No. 5, Policy for Grant Issuance and Monitoring (Bulletin 5). Under the requirements of the Uniform Guidance, the Agency is required to evaluate each subrecipient's risk of noncompliance for the purposes of determining the appropriate subrecipient monitoring related to the subaward. In addition, Bulletin 5 requires that unless prohibited by statute or regulation, and prior to the issuance of a grant award, the Agency must determine if each potential grantee is eligible to receive an award and shall not issue an award to an ineligible organization (pre award eligibility determination). For all 20 subrecipients, we noted the Agency did not complete either a pre award eligibility determination in accordance with Bulletin 5 or a risk assessment as required by the Uniform Guidance.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was identified as a finding within the June 30, 2016 audit report and was reported as finding 2016-019.

Cause

The cause of the condition found is primarily due to insufficient procedures related to the entire monitoring process over subrecipients, including the notification of federal funding awarded, as well as the documentation and completion of during the award monitoring procedures. In addition, the Agency does not have policies and procedures in place to perform risk assessments for subrecipients of this program as the Agency indicated they did not believe it was required as the federal program is an entitlement program.

Effect

The effect of the condition found is that the Agency may issue subawards to institutions whom are considered higher risk and require additional monitoring procedures which may not be performed due to the lack of a risk assessment. The lack of increased monitoring could result in unallowable costs being charged to the program. In addition, insufficient notification to the subrecipient of the federal awards funded under its subrecipient grant agreement could result in the subrecipient being unaware that they are receiving federal funds.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

None.

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Recommendation

We recommend that the Agency review its existing monitoring procedures and develop controls to ensure that risk assessment procedures are performed timely over subrecipients. These procedures should ensure that subrecipient monitoring procedures performed are linked to the specific risks identified as part of the risk assessment process. Written procedures should also be developed to ensure that prior to the execution of a grant agreement, the agreement is reviewed and contains all the data as outlined in 2 CFR Section 200.331(a)(1).

Views of Responsible Officials

We agree with the conditions found in this finding except for Item A under Award Identification. On January 17, 2018 communication was sent to the Federal USDA – Food & Nutrition Services financial office for clarification of this finding and we are awaiting a written response. During a phone call with the USDA New England Regional Office on January 24, 2018, we received verbal confirmation that the school nutrition funds were entitlement grants and not subject to many of the identification requirements as other grant awards due to the inability to ascertain much of the information prior to claim submission. Our detailed corrective action plan is described in Appendix I.

Rejoinder

As identified within the criteria, 2 CFR Section 200.331(a)(1) requires that the pass-through entity clearly identify to the subrecipient specific information and the Agency does not have procedures in place to communicate the required information at any time during the award period.

STATE OF VERMONT
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

Finding 2017-014

U.S. Department of Labor

Program Name and CFDA Number

Unemployment Insurance (CFDA #17.225)

Program Award Number and Award Year

UI-26567-15-55-A-50	10/01/2014–12/31/2017
UI-25236-14-55-A-50	10/01/2013–12/31/2016
UI-23924-13-55-A-50	10/01/2012–12/31/2015
UI-22346-12-55-A-50	10/01/2011–12/31/2014

Criteria

As described in §200.510(b) of the Uniform Guidance, auditees must complete the Schedule of Expenditures of Federal Awards (SEFA) and include CFDA numbers provided in Federal awards/subawards and associated expenditures.

Condition Found

During our testwork over the SEFA we noted that the original SEFA provided by the Department of Finance and Management was \$2,117,156 higher for the Unemployment Insurance program (CFDA #17.225) than the expenditure breakout provided by the Department of Labor. In reconciling the SEFA it was noted that the ARRA funds were inadvertently double counted. This error was subsequently corrected and the SEFA was revised to reflect the correct amount.

The above condition found was not identified as a finding within the June 30, 2016 audit report.

Cause

The cause of the condition found was primarily a result of insufficient review controls to ensure that expenditures are accurately reported on the SEFA which is a manual process.

Effect

The effect of this condition found is that the Department initially did not accurately prepare the current year SEFA.

The condition found does not appear to be systemic however is considered a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend the State review its existing procedures for preparation of the SEFA to ensure that expenditures are captured and reported accurately.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I. The initial errors in this year's SEFA report were caused by double reporting some UI benefit side expenditures. There was a lack of communication between the UI Cashier's Office and the fiscal unit when preparing the SEFA report which lead to the duplicate reporting of \$2.1 million in expenditures. The Vermont Department of Labor (VDOL) did not have sufficient controls in place to catch the errors before the submittal.

STATE OF VERMONT
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

Finding 2017-015

U.S. Department of Transportation

Program Name and CFDA Number

Formula Grants for Rural Areas (CFDA #20.509)

Program Award Number and Year

VT-2016-004-01 06/15/2016–06/15/2020

Criteria

A pass-through entity (PTE) must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals (2 CFR Sections 200.331(d) through (f)).

Condition Found

The Vermont Agency of Transportation (the Agency) performs an on-site monitoring visit for each of its subrecipients on a one, two or three year cycle, based on the risk assessment performed by the Agency. During our testwork over subrecipient monitoring, we noted the following:

- A. For 1 of 5 subrecipients selected for testwork, we noted the subrecipient was considered low risk based on the Agency's risk assessment. Under its subrecipient monitoring policy the subrecipient should have an on-site monitoring visit once every three years. Per review of the subrecipient's monitoring file, the most recent monitoring visit performed was in 2012. As a result, the Agency did not comply with its subrecipient monitoring policy.
- B. For 1 of 5 subrecipients selected for testwork, we noted the subrecipient was considered low risk based on the Agency's risk assessment. Under its subrecipient monitoring policy the subrecipient should have an on-site monitoring visit once every three years. Per review of the subrecipient's monitoring file, we were unable to obtain documentation to support that the Agency had performed any onsite monitoring visits for the subrecipient. As a result, we could not conclude that the Agency complied with its subrecipient monitoring policy.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2016 audit report.

Cause

The cause of the condition found is primarily due to insufficient procedures to ensure that subrecipient monitoring activities are documented as performed. For the 2 subrecipients identified in the bullets above, the subrecipients merged together to form one entity which impacted the Agency's standard monitoring procedures. While the Agency indicated they were heavily involved throughout the merger we were unable to obtain documentation to support their monitoring efforts.

STATE OF VERMONT
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

Effect

The effect of the condition found is that the Agency did not monitor its subrecipients in accordance with its subrecipient monitoring plan.

The condition found appears to be systemic in nature and is considered a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend that the Agency review its existing monitoring procedures and ensure that the Agency maintains adequate documentation to support their monitoring procedures and that planned deviations from their approved subrecipient monitoring plan are properly documented and approved as necessary.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

STATE OF VERMONT
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

Finding 2017-016

U.S. Department of Transportation

Program Name and CFDA Number

Highway Safety Cluster:

- State and Community Highway Safety (CFDA #20.600)
- Alcohol Impaired Driving Countermeasures Incentive Grants I (CFDA #20.601)
- Safety Belt Performance Grants (CFDA #20.609)
- State Traffic Safety Information System Improvement Grants (CFDA #20.610)
- Booster Seat Incentive Grants (CFDA #20.613)
- National Priority Safety Programs (CFDA #20.616)

Program Award Number and Award Year

NH16402PA	10/1/2015–9/30/2016
NH16402OP	10/1/2015–9/30/2016
NH16402PT	10/1/2015–9/30/2016
NH16402TR	10/1/2015–9/30/2016
NH16402SA	10/1/2015–9/30/2016
NH16402MC	10/1/2015–9/30/2016
NH16402PM	10/1/2015–9/30/2016
NH16405d	10/1/2015–9/30/2016

Criteria

2 CFR Section 200.303 require that nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal statutes, regulations, and the terms and conditions of the Federal award. The objectives of internal control over the compliance requirements for federal awards are found in 2 CFR Section 200.62 and include ensuring that transactions are executed in compliance with federal statutes, regulations, and the terms and conditions of the federal award that could have a direct and material effect on a federal program. This includes ensuring that expenditures are properly reviewed and approved prior to being charged to a federal program.

Period of Performance – A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity (2 CFR Section 200.309).

Condition Found

During our testwork over allowable costs, we noted that for 2 of 145 expenditures selected for testwork that the Financial Reimbursement Form was not properly approved prior to the expenditure being charged to the federal program.

The sample was not intended to be, and was not, a statistically valid sample

The above condition found was not identified as a finding within the June 30, 2016 audit report.

STATE OF VERMONT
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

Cause

The cause of the condition found was primarily a result of insufficient review and document retention controls to ensure that all necessary reviews occur prior to the expenditure being executed and that the review is documented.

Effect

The effect of the condition found is that an unauthorized expenditure could be charged to the federal program that results in an unallowable cost.

The condition found does not appear to be systemic however is considered a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend the Agency review its existing policy for approval of grant expenditures to ensure that all the appropriate approvals are acquired for each expenditure request.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

STATE OF VERMONT
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2017

Finding 2017-017

U.S. Department of Transportation

Program Name and CFDA Number

Highway Safety Cluster:

- State and Community Highway Safety (CFDA #20.600)
- Alcohol Impaired Driving Countermeasures Incentive Grants I (CFDA #20.601)
- Safety Belt Performance Grants (CFDA #20.609)
- State Traffic Safety Information System Improvement Grants (CFDA #20.610)
- Booster Seat Incentive Grants (CFDA #20.613)
- National Priority Safety Programs (CFDA #20.616)

Program Award Number and Award Year

NH16402PA	10/1/2015–9/30/2016	NH17402PA	10/1/2016–9/30/2017
NH16402OP	10/1/2015–9/30/2016	NH17402OP	10/1/2016–9/30/2017
NH16402PT	10/1/2015–9/30/2016	NH17402PT	10/1/2016–9/30/2017
NH16402TR	10/1/2015–9/30/2016	NH17402TR	10/1/2016–9/30/2017
NH16402SA	10/1/2015–9/30/2016	NH17402SA	10/1/2016–9/30/2017
NH16402MC	10/1/2015–9/30/2016	NH17402MC	10/1/2016–9/30/2017
NH16402PM	10/1/2015–9/30/2016	NH17402PM	10/1/2016–9/30/2017
NH16KPT406	10/1/2015–9/30/2016	NH17KPT406	10/1/2016–9/30/2017
NH16K9408	10/1/2015–9/30/2016	NH17164PA	10/1/2016–9/30/2017
NH16K8410	10/1/2015–9/30/2016	NH17164AL	10/1/2016–9/30/2017
NH16164PA	10/1/2015–9/30/2016	NH17405b	10/1/2016–9/30/2017
NH16164AL	10/1/2015–9/30/2016	NH17405c	10/1/2016–9/30/2017
NH16164HE	10/1/2015–9/30/2016	NH17405d	10/1/2016–9/30/2017
NH16405b	10/1/2015–9/30/2016	NH17405e	10/1/2016–9/30/2017
NH16405c	10/1/2015–9/30/2016	NH17405f	10/1/2016–9/30/2017
NH16405d	10/1/2015–9/30/2016		
NH16405f	10/1/2015–9/30/2016		

Criteria

A State must maintain its aggregate expenditures from all other sources at or above the average level of such expenditures in fiscal years 2010 and 2011 for activities for Occupant Protection, State Traffic Safety Information System Improvements, and Impaired Driving Countermeasures (23 USC 405(a)(1)(H); 23 CFR Sections 1200.21(d)(5), 1200.22(f), and 1200.23(d)(2)).

Condition Found

During our testwork over compliance with level of effort requirements, we noted the Vermont Agency of Transportation (the Agency) claims indirect costs from the Vermont Department of Public Safety (the Department) as part of their annual level of effort requirement. During our audit we noted the Agency included \$370,210 in indirect costs from the Department, however, were unable to obtain documentation to support the indirect cost rate used was appropriate.

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The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2016 audit report.

Cause

The cause of the condition found was primarily a result of insufficient documentation to support the indirect cost rate used. Indirect cost rates are required to be approved on an annual basis, however the rate used by the Department was approved during fiscal year 2015. It did not appear that an indirect cost rate had been approved by the federal oversight agency during fiscal year 2016 and as a result, the Department used a provisional rate of 26.4%. We noted that in the April 2017 a new indirect cost rate of 23.10% was approved.

Effect

The effect of the condition found is that the indirect cost rate used could be incorrect and not approved and therefore unallowable costs could have been charged to the program.

The condition found does not appear to be systemic however is considered to be a significant deficiency in internal controls.

Questioned Costs

Not determinable.

Recommendation

We recommend the Agency review its procedures for obtaining documentation to support the reasonableness of the indirect cost rate used by the Department and ensure that the rate used is correct as well as updated and approved annually.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

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 Year ended June 30, 2017

Finding 2017-018

U.S. Department of Transportation

Program Name and CFDA Number

Highway Safety Cluster:

- State and Community Highway Safety (CFDA #20.600)
- Alcohol Impaired Driving Countermeasures Incentive Grants I (CFDA #20.601)
- Safety Belt Performance Grants (CFDA #20.609)
- State Traffic Safety Information System Improvement Grants (CFDA #20.610)
- Booster Seat Incentive Grants (CFDA #20.613)
- National Priority Safety Programs (CFDA #20.616)

Program Award Number and Award Year

NH16402PA	10/1/2015–9/30/2016	NH17402PA	10/1/2016–9/30/2017
NH16402OP	10/1/2015–9/30/2016	NH17402OP	10/1/2016–9/30/2017
NH16402PT	10/1/2015–9/30/2016	NH17402PT	10/1/2016–9/30/2017
NH16402TR	10/1/2015–9/30/2016	NH17402TR	10/1/2016–9/30/2017
NH16402SA	10/1/2015–9/30/2016	NH17402SA	10/1/2016–9/30/2017
NH16402MC	10/1/2015–9/30/2016	NH17402MC	10/1/2016–9/30/2017
NH16402PM	10/1/2015–9/30/2016	NH17402PM	10/1/2016–9/30/2017
NH16KPT406	10/1/2015–9/30/2016	NH17KPT406	10/1/2016–9/30/2017
NH16K9408	10/1/2015–9/30/2016	NH17164PA	10/1/2016–9/30/2017
NH16K8410	10/1/2015–9/30/2016	NH17164AL	10/1/2016–9/30/2017
NH16164PA	10/1/2015–9/30/2016	NH17405b	10/1/2016–9/30/2017
NH16164AL	10/1/2015–9/30/2016	NH17405c	10/1/2016–9/30/2017
NH16164HE	10/1/2015–9/30/2016	NH17405d	10/1/2016–9/30/2017
NH16405b	10/1/2015–9/30/2016	NH17405e	10/1/2016–9/30/2017
NH16405c	10/1/2015–9/30/2016	NH17405f	10/1/2016–9/30/2017
NH16405d	10/1/2015–9/30/2016		
NH16405f	10/1/2015–9/30/2016		

Criteria

2 CFR Section 200.303 requires that nonfederal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal statutes, regulations, and the terms and conditions of the Federal award. The objectives of internal control over the compliance requirements for federal awards are found in 2 CFR Section 200.62 and include ensuring that transactions are executed in compliance with federal statutes, regulations, and the terms and conditions of the federal award that could have a direct and material effect on a federal program. This includes ensuring that federal reports are complete and accurate.

STATE OF VERMONT
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

Condition Found

The HS-217, Highway Safety Plan Cost Summary, is required to be filed annually for each subrecipient grant. During our testwork over federal reporting, we noted that during the preparation of the HS-217 report there were numerous estimates and assumptions which were used to support the amounts reported as current year funds, carry forward funds, and the federal and nonfederal share. These estimates and assumptions were not clearly defined or documented and as such we were unable to verify the amounts reported for all 3 of the HS-217 reports selected for testwork were reasonable. As a result, we were unable to determine if the reports filed were complete and accurate.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2016 audit report.

Cause

The cause of the condition found was primarily a result of insufficient supporting documentation for the creation and calculation of the report to ensure all information being used in the report is reasonable and supported by documented estimates.

Effect

The effect of the condition found is that federal reports may be filed that contain inaccurate data.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend the Agency of Transportation review its existing procedures for preparing the HS 217 report and ensure the amounts in the report are supported by documentation including the documentation of assumptions or estimates used in the report.

Views of Responsible Officials

The Agency of Transportation (VTTrans) agrees that supporting documentation was insufficient to support all data as it appears on the HS-217 report in SFY17. The report requires estimates and projections for which sufficiently detailed documentation was not maintained. Our detailed corrective action plan is described in Appendix I.

STATE OF VERMONT
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Finding 2017-019

U.S. Department of Transportation

Program Name and CFDA Number

Highway Safety Cluster:

- State and Community Highway Safety (CFDA #20.600)
- Alcohol Impaired Driving Countermeasures Incentive Grants I (CFDA #20.601)
- Safety Belt Performance Grants (CFDA #20.609)
- State Traffic Safety Information System Improvement Grants (CFDA #20.610)
- Booster Seat Incentive Grants (CFDA #20.613)
- National Priority Safety Programs (CFDA #20.616)

Program Award Number and Award Year

NH16402PA	10/1/2015–9/30/2016	NH17402PA	10/1/2016–9/30/2017
NH16402OP	10/1/2015–9/30/2016	NH17402OP	10/1/2016–9/30/2017
NH16402PT	10/1/2015–9/30/2016	NH17402PT	10/1/2016–9/30/2017
NH16402TR	10/1/2015–9/30/2016	NH17402TR	10/1/2016–9/30/2017
NH16402SA	10/1/2015–9/30/2016	NH17402SA	10/1/2016–9/30/2017
NH16402MC	10/1/2015–9/30/2016	NH17402MC	10/1/2016–9/30/2017
NH16402PM	10/1/2015–9/30/2016	NH17402PM	10/1/2016–9/30/2017
NH16KPT406	10/1/2015–9/30/2016	NH17KPT406	10/1/2016–9/30/2017
NH16K9408	10/1/2015–9/30/2016	NH17164PA	10/1/2016–9/30/2017
NH16K8410	10/1/2015–9/30/2016	NH17164AL	10/1/2016–9/30/2017
NH16164PA	10/1/2015–9/30/2016	NH17405b	10/1/2016–9/30/2017
NH16164AL	10/1/2015–9/30/2016	NH17405c	10/1/2016–9/30/2017
NH16164HE	10/1/2015–9/30/2016	NH17405d	10/1/2016–9/30/2017
NH16405b	10/1/2015–9/30/2016	NH17405e	10/1/2016–9/30/2017
NH16405c	10/1/2015–9/30/2016	NH17405f	10/1/2016–9/30/2017
NH16405d	10/1/2015–9/30/2016		
NH16405f	10/1/2015–9/30/2016		

Criteria

2 CFR Sections 200.303 and 200.62 requires that nonfederal entities receiving federal awards establish and maintain internal controls designed to reasonably ensure compliance with federal statutes, regulations, and the terms of conditions of the federal award, including over ensuring that the appropriate level of matching funds has been provided.

Condition Found

On an annual basis the Vermont Agency of Transportation (the Agency) is required to meet certain matching requirements for the Highway Safety Cluster. The Agency tracks and submits the required match using various sources that includes expenditures incurred by the Agency, expenditures incurred by other State of Vermont Departments, local expenditures incurred by third-party subrecipients, and various in-kind matching sources.

STATE OF VERMONT

Schedule of Findings and Questioned Costs

Year ended June 30, 2017

The Agency utilizes an internal tracking spreadsheet to track the matching funds available by individual funding source. Per review of the tracking spreadsheet, we noted that the Agency had \$8,877,606 in available matching funds to support the required match of \$2,175,397. As part of our testwork over the allowability of costs used for matching purposes, we obtained documentation to support the individual amounts included on the tracking spreadsheet and noted the following:

- A. For one source of match referred to as DMV Match for Motorcycle, the value of the matching funds per the internal tracking spreadsheet was \$30,000. Per review of the Financial Reimbursement Form from the Department of Motor Vehicles, the actual value of the match appeared to be \$82,093, or \$52,093 more than what was reported on the internal tracking spreadsheet. It was unclear as to why the full amount of the available match was not included within the internal tracking spreadsheet.
- B. For one source of match referred to as SAS Court Calculation, the value of the matching funds per the internal tracking spreadsheet was \$1,089,501 for Section 402 Other funds and \$1,081,606 for Section 405D funds. Per review of the supporting documentation to support the calculation of the available match, the actual value of the match appeared to be \$1,322,739 and \$1,320,198, respectively, for a difference of \$233,238 and \$238,592, respectively, more than what was reported on the internal tracking sheet. It was unclear as to why the full amount of the available match was not included within the internal tracking spreadsheet.

We noted the Agency did not have controls in place to ensure the amount of match included on the tracking spreadsheet was reviewed against the documentation which supported the match utilized. Additionally, we noted that both instances above did not result in the Agency not having sufficient match to meet its matching obligations.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2016 audit report.

Cause

The cause of the condition found is primarily due to insufficient controls to ensure that the spreadsheet used to monitor and track each source of matching funds is complete and accurate.

Effect

The effect of the condition found is that match may not be properly tracked resulting in the Agency not meeting the required federal match.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

None.

STATE OF VERMONT
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

Recommendation

We recommend the Agency review its existing procedures for tracking the availability of matching source of funds to ensure that the matching documentation is complete and accurate.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

STATE OF VERMONT
 Schedule of Findings and Questioned Costs
 Year ended June 30, 2017

Finding 2017-020

U.S. Department of Transportation

Program Name and CFDA Number

Highway Safety Cluster:

- State and Community Highway Safety (CFDA #20.600)
- Alcohol Impaired Driving Countermeasures Incentive Grants I (CFDA #20.601)
- Safety Belt Performance Grants (CFDA #20.609)
- State Traffic Safety Information System Improvement Grants (CFDA #20.610)
- Booster Seat Incentive Grants (CFDA #20.613)
- National Priority Safety Programs (CFDA #20.616)

Program Award Number and Award Year

NH16402PA	10/1/2015–9/30/2016	NH17402PA	10/1/2016–9/30/2017
NH16402OP	10/1/2015–9/30/2016	NH17402OP	10/1/2016–9/30/2017
NH16402PT	10/1/2015–9/30/2016	NH17402PT	10/1/2016–9/30/2017
NH16402TR	10/1/2015–9/30/2016	NH17402TR	10/1/2016–9/30/2017
NH16402SA	10/1/2015–9/30/2016	NH17402SA	10/1/2016–9/30/2017
NH16402MC	10/1/2015–9/30/2016	NH17402MC	10/1/2016–9/30/2017
NH16402PM	10/1/2015–9/30/2016	NH17402PM	10/1/2016–9/30/2017
NH16KPT406	10/1/2015–9/30/2016	NH17KPT406	10/1/2016–9/30/2017
NH16K9408	10/1/2015–9/30/2016	NH17164PA	10/1/2016–9/30/2017
NH16K8410	10/1/2015–9/30/2016	NH17164AL	10/1/2016–9/30/2017
NH16164PA	10/1/2015–9/30/2016	NH17405b	10/1/2016–9/30/2017
NH16164AL	10/1/2015–9/30/2016	NH17405c	10/1/2016–9/30/2017
NH16164HE	10/1/2015–9/30/2016	NH17405d	10/1/2016–9/30/2017
NH16405b	10/1/2015–9/30/2016	NH17405e	10/1/2016–9/30/2017
NH16405c	10/1/2015–9/30/2016	NH17405f	10/1/2016–9/30/2017
NH16405d	10/1/2015–9/30/2016		
NH16405f	10/1/2015–9/30/2016		

Criteria

2 CFR Sections 200.303 and 200.62 requires that nonfederal entities receiving federal awards establish and maintain internal controls designed to reasonably ensure compliance with federal statutes, regulations, and the terms of conditions of the federal award, including over ensuring that the federal reports are complete and accurate and that federally required earmarks have been adhered to and federal reports are complete and accurate.

Earmarking:

- a. At least 40% of Federal funds apportioned to a State under State and Community Highway Safety (CFDA 20.600) for any fiscal year shall be expended by or for the political subdivisions of the State in carrying out local highway safety programs (23 USC 402(b)(1)(C); 23 CFR part 1200, Appendix E).

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- b. The Federal costs for planning and administration under State and Community Highway Safety (CFDA 20.600) shall not exceed 13% of the funds received by the State. Indian Nations are exempt from this requirement (23 CFR Section 1200.13(a)).

Federal Reporting – the Federal-Aid Reimbursement Voucher is required to be filed.

Condition Found

At the end of each federal fiscal year the Agency of Transportation (the Agency) is required to file a final Federal-Aid Reimbursement Voucher that reports by federal funding source the total funds obligated, local benefits, the total expenditures incurred and the related federal and state share of the expenditures incurred. As part of our audit, we obtained and reviewed the final Federal-Aid Reimbursement Voucher for the federal fiscal year ending 2016. While the Federal-Aid Reimbursement Voucher had been filed by the Agency, we were unable to obtain documentation to support the expenditures reported in the Share to Local Benefits and State/Federal Cost to Date columns. As a result we were unable to validate if the amounts contained on the voucher were complete and accurate.

As we were unable to validate the amounts indicated above, we were unable to test to ensure that the required earmark requirements had been met. We did note based on what was reported with in the Federal-Aid Reimbursement Voucher it appeared that the Agency had met the applicable earmark requirements.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2016 audit report.

Cause

The cause of the condition is that the Agency co-mingles all expenditures for all award years and does not have sufficient controls and procedures to track expenditures by federal award year. As a result, the Department is unable to readily identify the specific expenditures contained within the Federal-Aid Reimbursement Voucher for the federal fiscal year ended 2016 or the specific expenditures used to meet its annual earmarking requirements.

Effect

The effect of the condition found is that data supporting the earmarking requirements may not be properly tracked resulting in failure to meet the required earmarks and inaccurate data being reported within the final Federal-Aid Reimbursement Voucher.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

None.

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Recommendation

We recommend that the Agency implement policies and procedures to ensure it properly tracks expenditures by federal award year in order to ensure that the expenditures reported within the Federal-Aid Reimbursement Voucher are complete and accurate. As part of their procedures, documentation should be maintained that supports that the Agency has complied with applicable federal earmark requirements and the progress towards meeting those earmark requirements has been monitored throughout the award year.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

STATE OF VERMONT
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

Finding 2017-021

U.S. Department of Education

Program Name and CFDA Number

Race to the Top – Early Learning Challenge (CFDA #84.412)

Program Award Number and Year

S412A130038 1/1/2014–12/31/2017

Criteria

Costs must meet certain general criteria, or basic guidelines, in order to be allowable under federal awards, including being adequately documented in accordance with OMB Circular A-87, OMB Circular A-21, and OMB Circular A-122. In addition to being adequately documented, 2 CFR Section 200.62 requires a system of internal control to be in place to ensure that transactions are properly accounted for and executed in compliance with federal regulations and that funds are properly safeguarded against loss from unauthorized use or disposition. A system of internal control is expected to provide reasonable assurance that these objectives will be achieved.

Condition Found

During our testwork over the allowability of costs paid, we noted the following:

Department for Children and Families

Of the 60 invoices selected for testwork, 30 invoices were processed and paid by the Department for Children and Families. Per review of these 30 invoices, we noted the following:

- A. For 2 of 30 invoices, the invoice appeared to be properly reviewed and approved, however, the approval was not dated and as such we were unable to determine if the invoice was approved prior to payment.
- B. For 2 of 30 invoices, the invoice provided did not have any documentation to support the services and/or expenditures that were being paid for.

Vermont Department of Health

Of the 60 invoices selected for testwork, 10 invoices were processed and paid by Vermont Department of Health. Per review of these 10 invoices, we noted the following:

- C. For 1 of 10 invoices, the invoice contained a higher hourly rate for services (\$67.50 per hour) than what the Department of Health pays for similar services provided by other consultants (\$65 per hour). It was unclear as to why the hourly rate was higher and as a result, we were unable to conclude whether or not the amount paid to the consultant was reasonable. The difference in the amount paid would have been \$65.

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Agency of Education

Of the 60 invoices selected for testwork, 20 invoices were processed and paid by the Agency of Education. Per review of these 20 invoices, we noted the following:

- D. For 10 of 20 invoices, the documentation provided to support the payment was the Agency's AOE 2.0 form which is used for all subrecipient grant requests for reimbursement, as outlined in the grant agreement and Agency policy. No additional documentation is provided by the subrecipient to support their request for reimbursement. Typically, the Agency reviews the allowability of costs through their financial subrecipient monitoring procedures, however, there was no financial subrecipient monitoring performed over this federal program and as such no review over the allowability of costs was performed.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was identified as a finding within the June 30, 2016 audit report and was reported as finding 2016-026.

Cause

The cause of the condition found is that there are insufficient controls and procedures in place to ensure that invoices are formally reviewed and approved prior to payment and that the review is properly documented. Additionally there appears to be a lack of internal controls over subrecipient payment requests to support the costs incurred.

Effect

The effect of the condition found is that costs could have been paid that are not allowable under federal regulations.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that management within the Department for Children and Families, the Department of Health, and the Agency of Education review their existing procedures for reviewing and approving invoices for payment and implement internal controls to ensure that all invoices are properly reviewed and approved prior to payment. The approval process should include documentation of the review of supporting information to ensure that the services rendered are consistent with the services outlined within its existing grant or contract with the vendor.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

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Finding 2017-022

U.S. Department of Education

Program Name and CFDA Number

Race to the Top – Early Learning Challenge (CFDA #84.412)

Program Award Number and Year

S412A130038 1/1/2014–12/31/2017

Criteria

A pass-through entity is responsible for monitoring the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Condition Found

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

Agency of Education

- A. The Agency performed 3 programmatic monitoring reviews during the fiscal year ended June 30, 2017. For the 3 programmatic monitoring reviews selected for testwork, we noted that the Agency of Education did not issue a closure letter to the subrecipient. As a result, we were unable to determine if the programmatic monitoring reviews were considered complete.

Department for Children and Families

- B. During the fiscal year ended June 30, 2017, we noted the Department for Children and Families did not perform any subrecipient monitoring over any of the grantees.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was identified as a finding within the June 30, 2016 audit report and was reported as finding 2016-027.

Cause

The cause of the condition found is primarily due to a lack of sufficient subrecipient monitoring procedures to ensure that subrecipients are properly monitored and to ensure that all monitoring procedures that are performed are properly documented.

Effect

The effect of the condition found is that the subrecipient grants may not have been sufficiently monitored given the risk associated with the grantee.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

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Questioned Costs

None.

Recommendation

We recommend the Department for Children and Families and the Agency of Education review their existing policies and procedures to ensure documented subrecipient monitoring procedures are in place that outline the types of programmatic and fiscal monitoring to be performed. They should also ensure that the results of monitoring activities are properly documented.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

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Finding 2017-023

U.S. Department of Health and Human Services

Program Name and CFDA Number

TANF Cluster

Temporary Assistance for Needy Families (CFDA #93.558)

Program Award Number and Year

1601VTTANF	10/1/15–9/30/16
1701VTTANF	10/1/16–9/30/17

Criteria

Allowability – Funds may be used in any manner reasonably calculated to accomplish the purposes of the program, including providing low-income households with assistance in meeting home heating and cooling costs (42 USC 604(a)(1) and 45 CFR section 263.11(a)(1)). As specified in 42 USC 601 and 45 CFR section 260.20, the TANF program has the following purposes:

- (1) Provide assistance to needy families so that children may be cared for in their own homes or in the homes of relatives;
- (2) End dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
- (3) Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
- (4) Encourage the formation and maintenance of two-parent families.

Eligibility – A State shall require, as a condition of providing assistance that a member of the family assign to the State the rights the family member may have for support from any other person. This assignment does not exceed the amount of assistance provided (42 USC 608(a)(3)).

The document (State Plan) shall set forth objective criteria for the delivery of benefits and the determination of eligibility and for fair and equitable treatment, including an explanation of how the state will provide opportunities for recipients who have been adversely affected to be heard in a state administrative or appeal process (42 USC 602(a)(1)(B)(iii)).

Income Eligibility and Verification System – Each State shall participate in the Income Eligibility and Verification System (IEVS) required by Section 1137 of the Social Security Act as amended. Under the State Plan the State is required to coordinate data exchanges with other federally assisted benefit programs, request and use income and benefit information when making eligibility determinations, and adhere to standardized formats and procedures in exchanging information with other programs and agencies.

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Condition Found

The State Agency responsible for TANF is responsible for obtaining the proper documentation/verification (identification) of the client when they apply for assistance in order to determine if the individual is eligible for benefits. As part of the eligibility determination process, the Vermont Department for Children and Families (the Department) requires participants to complete a "Child and Medical Support Authorization and Application for Services Form" and a "Shelter Expense Statement" as part of the application process to help support amounts paid by the participant that will be incorporated into the participant's calculation of monthly benefits. During our testwork over the benefit determination process, we noted the following:

- A. For 2 of 40 participant eligibility determinations selected for testwork, the Child and Medical Support Authorization and Application for Services from the Office of Child Support form was not completed as required. As a result, it was unclear if the participant had assigned their rights to receive child support to the State as required under TANF regulations.
- B. 2 of 40 participant eligibility determinations selected for testwork, only one shelter expense statement was obtained for each participant. For these 2 participants, there was more than 1 eligible child within the household and as a result, each participant should have completed 2 shelter expense statements. While only 1 statement had been obtained, it did not appear to have had an impact on the participant's monthly benefit payment.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2016 audit report.

Cause

The cause of the condition found is due to insufficient controls within the Department to verify that all proper documentation has been submitted and reviewed prior to determining eligibility.

Effect

The effect of the condition found is that an improper eligibility determination could be made resulting in an unallowable cost being charged to the program.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review its procedures and implement sufficient controls to ensure that all required documentation is obtained, reviewed, approved, and maintained for each participant's determination of eligibility.

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Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

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Finding 2017-024

U.S. Department of Health and Human Services

Program Name and CFDA Number

Low-Income Home Energy Assistance (CFDA #93.568)

Program Award Number and Year

G-17B1VTLIEA	10/01/2016–09/30/2017
G-16B1VTLIEA	10/01/2015–09/30/2016

Criteria

Annual Report on Households Assisted by LIHEAP – As part of the application for block grant funds each year, a report is required for the preceding fiscal year of (1) the number and income levels of the households assisted for each component (heating, cooling, crisis, and weatherization), and (2) the number of households served that contained young children, elderly, or persons with disabilities. Territories with annual allotments of less than \$200,000 and Indian tribes are required to report only on the number of households served for each component (42 USC 8629; 45 CFR Section 96.82)

Condition Found

During our testwork over the Annual Report on Households that was submitted for the federal fiscal year ending September 30, 2016 we noted the following:

- A. The heating assistance information used to prepare the report is obtained from the SPSS database. Information is extracted directly from the ACCESS system, or the benefit eligibility maintenance system that is used for various programs, including the LIHEAP program. ACCESS is configured to calculate benefits from set Federal Poverty Level (FPL) ranges but the ranges in ACCESS are not the same ranges used on the Annual Report on Households. Within the ACCESS system, for FPL ranges that fall within two ranges listed on the form, the number of households from ACCESS is split evenly between the two. As such, the figure reported on the application does not represent an exact number of households.
- B. We were unable to agree certain line items reported within the Annual Report on Households to the supporting documentation provided by the Department. Specifically we noted the following:
 - 1. Part II, Line 3b, the total households reported in Column D for households within the poverty Level I per the report was 1,393, compared to 1,357 shown on the support schedules which are provided by the Department's sub-recipients who administer crisis fuel assistance.
 - 2. Part III, Column D represents the unduplicated total number of households reported within Columns A, B, and C, as a household could be represented in more than one vulnerable population. For line 3b, we were unable to obtain documentation to support the Department's calculation of the amounts reported within Columns A, B, C, and D.

The sample was not intended to be, and was not, a statistically valid sample.

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The above condition found was identified as a finding within the June 30, 2016 audit report and was reported as finding 2016-032.

Cause

The cause of the condition found is primarily due to limitations that exist within the ACCESS system to extracted data needed to prepare the federal report as well as insufficient procedures to maintain documentation to support the amounts that were included within the federal report.

Effect

The effect of the condition found is that inaccurate information could be included on the Annual Report on Households Assisted by LIHEAP.

The condition found does not appear to be systemic in nature however is considered a significant deficiency in internal control.

Questioned Costs

None.

Recommendation

We recommend the Department review its existing procedures for preparing the federal report to ensure that the data contained within the report is complete, accurate and is properly supported by sufficient documentation.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

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Finding 2017-025

U.S. Department of Health and Human Services

Program Name and CFDA Number

Foster Care – Title IV-E (CFDA #93.658)

Program Award Number and Year

1601VTFOST	10/01/2015–09/30/2016
1701VTFOST	10/01/2016–09/30/2017

Criteria

Funds may be expended for Foster Care maintenance payments on behalf of eligible children, in accordance with the Agency's Foster Care maintenance payment rate schedule and in accordance with 45 CFR Section 1356.21, to individuals serving as foster family homes, to child-care institutions, or to public or private child-placement or child-care agencies.

A judicial determination regarding reasonable efforts to finalize the permanency plan must be made within 12 months of the date on which the child is considered to have entered foster care and at least once every 12 months thereafter while the child is in foster care. The judicial determination must be explicitly documented and made on a case by case basis. If a judicial determination regarding reasonable efforts to finalize a permanency plan is not made within this timeframe, the child is ineligible at the end of the 12th month from the date the child was considered to have entered foster care or at the end of the month in which the subsequent judicial determination of reasonable efforts was due, and the child remains ineligible until such a judicial determination is made (45 CFR Section 1356.21(b)(2)).

Condition Found

During our testwork over participant eligibility for the Foster Care program at the Vermont Department for Children and Families (the Department), we noted the following:

- A. For 1 of 40 participants selected for testwork, the participant was in Foster Care for 1 day and there was no eligibility determination performed for the participant. As a result, the payment made on behalf of this child should not have been charged to the Foster Care program. The total amount paid and charged to the Foster Care program was \$30.
- B. For 1 of 40 participants selected for testwork, the participant's permanency review was due January 2016, but it did not occur until December 2016. As a result, payments made on behalf of this individual should not have been charged to the Foster Care program subsequent to February 2016. The total amount paid that was incorrectly charged the Foster Care program was \$5,904, of which \$3,543 was paid during the fiscal year ended June 30, 2017.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2016 audit report.

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Cause

The cause of the condition found is primarily due to insufficient controls in place to monitor and ensure that maintenance benefit payments charged to the Foster Care program are for eligible children only.

Effect

The effect of the condition found is that unallowable costs were charged to the program.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Question Costs

\$5,934

Recommendation

We recommend that the Department review its existing controls and procedures to ensure that the eligibility status of children is reviewed timely.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

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Finding 2017-026

U.S. Department of Health and Human Services

Program Name and CFDA Number

Foster Care – Title IV-E (CFDA #93.658)

Program Award Number and Year

1601VTFOST	10/01/2015–09/30/2016
1701VTFOST	10/01/2016–09/30/2017

Criteria

Foster care maintenance payments can be made only if all compliance requirements are met and the child is placed in a licensed foster home or child-care institution (45 CFR 1355.20(a), 45 CFR 1366.30(f) and 45 CFR 1356.71(d)(1)(iv) including the following:

- The foster family home provider must satisfactorily have met a criminal records check, including a fingerprint-based check, with respect to prospective foster and adoptive parents (42 USC 671(a)(20)(A)). This involves a determination that such individual(s) have not committed any prohibited felonies in accordance with 42 USC 671(a)(20)(A)(i) and (ii).
- The provider, whether a foster family home or a child-care institution must be fully licensed by the proper State or tribal foster care licensing authority responsible for licensing such homes or child care institutions. The term “child care institution” as defined in 45 CFR Section 1355.20 includes a private child care institution, or a public child care institution which accommodates no more than 25 children, which is licensed by the State in which it is situated or has been approved, by the agency of such State responsible for licensing or approval of institutions of this type, as meeting the standards established for such licensing, but does not include detention facilities, forestry camps, training schools, or facilities operated primarily for the purpose of detention of children who are determined to be delinquent (42 USC 671(a)(10) and 672(c)). Effective October 1, 2010, the existing statutory definition of a child care institution includes a supervised setting in which an individual who has attained 18 years of age is living independently, consistent with conditions the Secretary establishes in regulations (42 USC 672(c)(2)).

Funds may be expended for Foster Care maintenance payments on behalf of eligible children, in accordance with the Agency’s Foster Care maintenance payment rate schedule and in accordance with 45 CFR Section 1356.21, to individuals serving as foster family homes, to child-care institutions, or to public or private child-placement or child-care agencies.

Payment Rate Setting and Application – Title IV-E agencies establish payment rates for maintenance payments (e.g., payments to foster parents, child care institutions or directly to youth). Payment rates may also be established for Title IV-E administrative expenditures (e.g., payments to child placement agencies or other contractors, which may be either subrecipients or vendors) and for other services. Payment rates must provide for proper allocation of costs between foster care maintenance payments, administrative expenditures, and other services in conformance with the cost principles. The Title IV-E agency’s plan approved by ACF must provide for periodic review of payment rates for foster care maintenance payments at reasonable, specific, time-limited periods established by the Title IV-E agency to assure the rate’s

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continuing appropriateness for the administration of the Title IV-E program (42 USC 671(a)(11); 45 CFR Section 1356.21(m)(1); 45 CFR Section 1356.60(a)(1) and (c)).

Condition Found

During our testwork over monthly Foster Care subsidy maintenance payments at the Vermont Department for Children and Families (the Department), we noted the following:

- A. For 1 of 40 providers selected for testwork, the child was placed in an unlicensed out of state home that did not meet the required fire safety regulations. As the provider was not properly licensed, it should not have received foster care maintenance payment. The total amount paid to the provider was \$6,358 for the year ended June 30, 2017, however the provider in total has received \$13,407 in foster care maintenance payments since 2015.
- B. For 2 of 40 providers selected for testwork, there was no documentation to support that the provider had completed any required training. While there was no evidence that any training had been completed, we did note that both providers had received the lowest daily rate allowed under the maintenance rate schedule.
- C. For 2 of 40 providers selected for testwork, the provider had lived outside of the State of Vermont less than 5 years ago, and as such, the Department is required to check the abuse registry in the prior state of residence. We noted that the results of the abuse registry check were either not received at all, or were not received prior the issuance of the license and drawdown of Title IV-E funds. As a result it was unclear as to whether or not the provider had been properly licensed and should have received a Foster Care payment.
- D. For 2 of 40 providers selected for testwork, the providers were an out-of-state residential facility. The Department does not perform site visits, nor do they verify sufficient steps were taken to ensure proper background and abuse registry checks were performed on the home. Instead the Department relies on the state in which the facility operates to ensure facility compliance in the form of a signed document indicating the facility was "Fully Approved". It was unclear however in looking at this documentation whether or not the facility had met the requirements to be a licensed Foster Care provider and should have received a Foster Care payment.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was not identified as a finding within the June 30, 2016 audit report.

Cause

The cause of the condition found is primarily due to insufficient controls to ensure that sufficient documentation is obtained prior to issuing a license to a provider as well as maintaining adequate support for the daily reimbursement rate being paid to its providers.

Effect

The effect of the condition found is that the Department lacks sufficient documentation to substantiate that the provider has been properly licensed or is being paid the correct daily reimbursement rate.

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The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Question Costs

\$6,358

Recommendation

We recommend that the Department review its existing controls and procedures to ensure that adequate documentation is maintained for all providers to validate the provider's training level to ensure that rates paid to providers above the base rate is accurate. We further recommend that the Department review its procedures over the licensing of providers to ensure that all required documentation to support that the provider is eligible for licensure has been obtained prior to issuing a license or paying for services using federal Foster Care funds.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

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Finding 2017-027

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster

State Medicaid Fraud Control Units (CFDA #93.775)
State Survey and Certification of Health Care Providers and Suppliers (CFDA #93.777)
Medical Assistance Program (CFDA #93.778)

Program Award Number and Year

11-W-00194/1	1/1/11–12/31/16
11-W-00194/1	1/1/17–12/31/21

Criteria

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

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

There are specific requirements that must be followed to ensure that individuals meet the financial and nonfinancial requirements for Medicaid. These include that the State or its designee shall:

- (1) Accept an application submitted online, by telephone, via mail, or in person and include in each applicant's case records to support the agency's decision on the application (42 USC 1320b-7(d); 42 CFR Sections 435.907 and 435.913).
- (2) Request information from other agencies in the State and other State and federal programs to the extent that such information is useful in verifying the financial eligibility of an individual. If information provided by or on behalf of an individual is reasonably compatible with information obtained from the electronic data sources, then the agency must determine or renew eligibility based on such information and may not require the individual to provide any further documentation. If the information is not reasonably compatible, then the agency must provide the individual with a reasonable period of time to explain the discrepancy or furnish additional information (42 CFR Sections 435.948 and 435.952).
- (3) Require, as a condition of eligibility, that each individual seeking Medicaid furnish his or her Social Security number (SSN). This requirement does not apply if the individual (a) is not eligible to receive an SSN, (b) does not have an SSN and may be issued an SSN only for a valid nonwork reason, or (c) because of well-established religious objections, refuses to obtain a SSN. In redetermining eligibility, if the case record does not contain the required SSN, the agency must require the recipient to furnish the SSN (42 USC 1320b-7(a)(1); 42 CFR Sections 435.910 and 435.920).

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- (4) Verify each SSN of each applicant and recipient with Social Security Administration (SSA) to ensure that each SSN furnished was issued to that individual and to determine whether any others were issued (42 CFR Sections 435.910(g) and 435.920).
- (5) Verify and document the citizenship and immigration status of each applicant (42 USC 1320b-7d).

Condition Found

During our testwork over allowability and eligibility, we selected 65 non-MAGI participants and noted the following:

- A. The Department of Children and Families (the Department) utilizes the ACCESS system, the State of Vermont's benefit eligibility maintenance system, to determine eligibility for the Medicaid program for those beneficiaries that are non-MAGI based. After the eligibility specialist data enters financial information into the ACCESS system, ACCESS determines whether or not the applicant is eligible for benefits.

During the year ending June 30, 2012, a test of design related to the IT general control environment of the ACCESS system was performed. As part of this review, a number of control deficiencies were identified related to access to programs and data, change management, and computer operations. As a result of the control deficiencies, a test of operating effectiveness of IT general controls or application controls specific to the Medicaid program could not be performed. During the period ending June 30, 2017, inquiries were made with the Department and it was noted that while the Department has continued to make improvements to remediate these control deficiencies, as of June 30, 2017 they have not been fully corrected. As a result, we are unable to test the application controls specific to the Medicaid program contained within the ACCESS system and are unable to conclude that there are adequate controls in place surrounding the eligibility determination process for this program and we are unable to rely on the IT controls due to the control deficiencies.

- B. For 1 of 65 participants selected for testwork, we noted the participant was assigned a child category code, however, the participant was over age 19 and therefore ineligible for the assigned category code.
- C. For 4 of 65 participants selected for testwork, we noted that the participant was identified as a U.S. citizen within the ACCESS system; however, their citizenship status was not supported by either a Citizenship or Identification Code or other documentation to verify citizenship as required.
- D. For 2 of the 65 participants selected for testwork, the ACCESS system indicated that the participant's Citizenship Code was either "MB" or "MH" meaning that the individual's citizenship was verified using either a Vermont Department of Buildings and General Services (BGS) or Vermont Department of Health (VDH) cross-match, respectively. However, as noted above, given the system deficiencies identified above within Bullet A, we are unable to rely on the accuracy of the information contained within the ACCESS system alone and the State has no other procedures in place to verify applicant's citizenship status.
- E. For 2 of 65 participants selected for testwork, we noted that the participant was categorized as a "Katie Beckett Child." Requirements under the Katie Beckett program dictate that eligibility must be determined through a signed Physicians note, however we were unable to obtain the Physicians note which supported the Katie Beckett eligibility determination.

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- F. For 1 of 65 participants selected for testwork, we noted the participant's application was never signed and was, therefore, incomplete.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was identified as a finding within the June 30, 2016 audit report and was reported as finding 2016-039.

Cause

The cause of the condition found is that there appears to be inadequate controls in place to ensure that the proper information is obtained to support an applicant's eligibility for Medicaid or adequate controls to review such information for completeness and accuracy when the information is obtained. The Department relies 100% on the ACCESS system and does not perform an independent review to ensure that the data entered into the ACCESS system is accurate and that the ACCESS system has made benefit eligibility determinations correctly.

Effect

The effect of the condition found is that the State may have paid benefits on behalf of individuals that may not have been eligible for benefits, resulting in unallowable costs being incurred.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department review its procedures over obtaining and validating documentation reported by applicants that is used to determine Medicaid eligibility. A process of supervisory or quality control review would ensure that all information is correct, thus supporting an applicant's eligibility. The collection and verification of accurate information would ensure the State is in compliance with all federal regulations. In addition, we recommend that the Department review the internal control deficiencies related to the ACCESS system identified during the period ending June 30, 2012 and continue to take appropriate actions to ensure that all deficiencies related to access to program data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the ACCESS system.

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

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Finding 2017-028

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Health Care Providers and Suppliers (CFDA #93.777)

Medical Assistance Program (CFDA #93.778)

Program Award Number and Year

11-W-00194/1 1/1/11–12/31/16

11-W-00194/1 1/1/17–12/31/21

Criteria

State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. State agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR Section 95.621).

Condition Found

The Agency of Human Services (AHS) is the designated single State Medicaid agency. Within AHS, the Department of Vermont Health Access (DVHA) has been designated as the medical assistance unit and the Department for Children and Families (DCF) is responsible for determining client eligibility (using the ACCESS system). While Medicaid eligibility is determined by the State, claims processing is performed through a combination of State and contractor systems and resources.

The CFR requirements indicate that reviews shall include an evaluation of physical and data security operating procedures and personnel practices which also includes a security plan, risk assessment, and security controls review document. Further, the State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation. AHS includes a standard contract provision in its Medicaid contracts that requires contractors and subcontractors to provide a security plan, risk assessment, and security controls review documents to support compliance with 45 CFR §95.621. These documents must be provided within 3 months of the start date of the contract and updated annually.

During testwork, we noted the following over the key systems being used:

- A. ACCESS is the benefit eligibility system owned and operated by the State. There was no documentation or support that any kind of security review was performed by DVHA for the ACCESS system during state fiscal year 2017.

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- B. Medicaid Management Information System/Advanced Information Management System (MMIS/AIM) is the claims payment system owned and operated by DXC, a contractor. We noted that the State appeared to have obtained the SOC 1 Report for DXC as part of the ADP Risk Analysis and System Security Review process, however, documentation of the review was prepared and provided subsequent to the audit request. Additionally, the documentation provided as support for the review made no mention on the deficiencies noted in the SOC report.
- C. eRebs is the Drug Rebate system owned and operated by Change Healthcare (CHC), a contractor. We noted the State appeared to have obtained the SOC 1 report for CHC as part of the ADP Risk Analysis and System Security Review process, however, documentation of the review was prepared and provided subsequent to the audit request. Additionally, the documentation provided as support for the review made no mention on the deficiencies noted in the SOC report. Additionally, the State provided a System Security Plan (SSP) which was last updated March 2017. An email was provided as documentation showing the SSP was reviewed in June 2017, however, there was no documented evidence of this review. An attestation dated 12/11/2017 was provided noting the SSP was reviewed, however, there was no evidence outside the attestation, dated after the audit request, that this was reviewed and tracked.

The above condition found was identified as a finding within the June 30, 2016 audit report and was reported as finding 2016-042.

Cause

The cause of the condition found noted in Bullet A above is primarily due to the fact that both the Internal Revenue Service and the Social Security Administration have conducted recent system security reviews related to the ACCESS system and DVHA is currently in the process of remediating the deficiencies noted during the review process. Once the remediation process is finished, the intent is to complete a security review over the ACCESS system. The cause of the condition found in Bullet B above is primarily due to insufficient procedures in place to review and document the procedures performed related to the security review process.

Effect

The effect of the condition found is that DVHA does not fully comply with the biennial security risk assessment process and therefore may not have properly addressed system security risks of its key systems used to manage the Medicaid program, including the systems related to eligibility determination and claims processing.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

None.

Recommendation

We recommend that the State review its policies and procedures over ADP security review and implement procedures to help ensure that all reviews are performed timely and are properly documented.

STATE OF VERMONT
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

Views of Responsible Officials

We agree with the finding and related recommendation above. Our detailed corrective action plan is described in Appendix I.

STATE OF VERMONT
Schedule of Findings and Questioned Costs
Year ended June 30, 2017

Finding 2017-029

U.S. Department of Homeland Security

Program Name and CFDA Number

Homeland Security Grant Program (CFDA #97.067)

Program Award Number and Year

EMW-2014-SS-00020	09/01/2014–08/31/2016
EMW-2015-SS-00028	09/01/2015–08/31/2018
EMW-2016-SS-00054	09/01/2016–08/31/2019

Criteria

Title to equipment acquired by a nonfederal entity with federal awards vests with the non-Federal entity. Equipment means tangible nonexpendable property, including exempt property, charged directly to the award having a useful life of more than one year and an acquisition cost of \$5000 or more per unit. However, consistent with a nonfederal entity's policy, lower limits may be established.

A State shall use, manage, and dispose of equipment acquired under a federal grant in accordance with state laws and procedures. Subrecipients of States who are local governments or Indian tribes shall use State laws and procedures for equipment acquired under a subgrant from a state.

Condition Found

During our testwork over equipment management at the Vermont Department of Public Safety (the Department) we noted that the Department does not have a sufficient system in place to track the location of equipment purchased with state and federal funds. As part of the Department's existing corrective action plan related to a similar finding in the prior year, the Department contracted with a third party to complete its annual equipment asset inventory and to perform an independent assessment of the Department's equipment inventory.

Per review of the Department's prepared Asset Inventory Report from June 16, 2017, we noted there were a number of issues related to the equipment asset inventory count that impacted the vendor's ability to complete the inventory observation itself. Per review of the Asset Inventory Report, we noted that there were 796 items that could not be located as part of the annual inventory. Of the items that could not be found:

- 575 items were IT (computer, servers) related
- 25 items were search and rescue radios that have subsequently been accounted for
- 13 items were communication equipment
- 38 items had already been accounted for and removed from the inventory listing
- 50 items were specific equipment items for the Vermont State Police.

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Schedule of Findings and Questioned Costs

Year ended June 30, 2017

The Department noted that the value of the unaccounted for inventory exceeded \$6 million and it was unclear how much of this equipment had been purchased with federal funds, primarily due to the fact that assets were not properly tracked and identified as being purchased with federal funds in prior years.

The sample was not intended to be, and was not, a statistically valid sample.

The above condition found was identified as a finding within the June 30, 2016 audit report and was reported as finding 2016-043.

Cause

The cause of the condition found is primarily due to the Department not performing procedures to update the inventory listing for items that need to be adjusted or removed on a timely basis.

Effect

The effect of the condition found is that the Department has not maintained complete and accurate records related to equipment.

The condition found appears to be systemic in nature and is considered a material weakness in internal control.

Questioned Costs

Not determinable.

Recommendation

We recommend that the Department, as part of its ongoing corrective action plan, implement procedures to ensure that a full reconciliation of the asset database is completed and all variances identified are identified, tracked and adjusted for on a timely basis.

Views of Responsible Officials

The Department of Public Safety (DPS) respectfully disagrees with this finding for the following reasons:

Reason #1: FEMA/U.S. Department of Homeland Security performed an audit of the HSGP program in the summer of 2017. FEMA closed their finding relating to asset management based on the new policies and procedures that have been developed and implemented at DPS in December of 2016, as DPS committed to in our 2016 Corrective Action Plan, indicating that they were satisfied that any internal control weakness had been satisfactorily resolved. In FEMA's Management Decision Letter to DPS dated September 27, 2017 FEMA noted the following:

Management Action Required: None

"During a financial monitoring site visit to the VT DPS in June of 2017, FEMA Region I staff verified that the planned training for the Asset Custodians and the reconciliation of the physical inventory with the VISION Asset Module did occur. FEMA Region I staff also verified that the bar-coding system has been implemented. The FEMA Region I Non-Disaster Grants Management Specialist, who is most familiar with VT DPS's policies and procedures, in attendance at the financial monitoring site visit was satisfied with the

STATE OF VERMONT

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Equipment management corrective action taken by the agency. FEMA Region I has determined that VT DPS has adequately corrected the deficiencies identified in this audit finding.”

Reason #2: The numbers shared with KPMG when on-site at DPS and as quoted above needed further context to be fully understood. These are the raw numbers issued to DPS by our contracted inventory vendor CBIZ in June 2017, prior to any post-inventory reconciliation process. These numbers mostly reflect items that were not found by the vendor because they were in the field (in use) on the day of the inventory count or the site was inaccessible at the time of the inventory due to weather conditions. Because those sites were inaccessible, and because DPS wants to ensure complete accuracy before we write off old items, we planned to do a mid-year count (when all our remote sites are accessible), which took place in October of 2017, and then perform our final reconciliation process to identify old items for write off. Since the mid-year count reports were received in early November, most items were reconciled and what is now remaining is to complete the process, as defined in our new policy/procedures, to write off very old inventory to fully reconcile our new “WASP” inventory database with VISION. DPS is committed to and taking steps to accomplish a careful and complete inventory cleanup as the final stage of our multi-year project. However, the internal control improvements (policies and procedures) we committed to in our FY16 Corrective Action Plan were fully implemented in January of 2017 and newly acquired items have been tracked successfully since that time. We believe that any issue of internal control noncompliance was resolved when our new procedures were implemented and our Asset Custodians were assigned and trained. DPS is working our asset management internal control improvement plan in a methodical and careful way as it was intended and believe that the internal control weakness no longer existed as of January of 2017.

Reason #3: The scope of the finding is also a concern. Typically, when a program is audited, samples audited are transactions relating to the funding source being reviewed and relating to the timeframe under review. Prior to their scheduled onsite visit, KPMG requested and was provided Homeland Security Grant Program (HSGP) asset list from the FY2017 timeframe. To our knowledge, there were no discrepancies or concerns noted by KPMG relating to the FY17 HSGP samples. We request that KPMG consider that the scope of a grant-specific finding be based on the Homeland Security grant-specific assets purchased during the time period under review. All sampled grant assets have been properly accounted for in SFY 2017.

Rejoinder

2 CFR Section 200.313(b) requires that the Department use, manage, and dispose of equipment acquired under a federal award in accordance with state laws and procedures. Under the State of Vermont Agency of Administration’s Asset Management Procedure, all Departments are required to conduct and complete an annual physical inventory between May and June 1st. A physical inventory must be taken of all capital assets and computer equipment to ensure that all capital assets and computer equipment additions and disposals are recorded properly in VISION. All adjustments including additions and disposals of assets in VISION as a result of the physical inventories taken must be made in VISION prior to June 15th of the same year.

As indicated in the condition found, the Department completed an inventory of its capital assets and computer equipment and was unable to locate 796 items as part of the annual inventory process. The unaccounted for inventory exceeded \$6 million and it was unclear how much of this equipment had been purchased with federal funds due to the fact that the assets had not been properly tracked and identified as

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having been purchased with federal funds in prior years. As of our September 2017, the date of our testwork, we noted that the Department had not finalized their reconciliation process of the June 30, 2017 variances.

As the requirement to conduct an annual inventory observation is not limited to only the capital assets that were purchased during the current period under audit, the entire population of capital assets that was included in the capital asset listing as of June 30, 2017 and was subjected to the annual inventory observation was subject to audit as well.

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APPENDIX I

Corrective Action Plan

June 30, 2017

Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards

Finding 2017-001

Department of Vermont Health Access
Medicaid and CHIP Re-determination of Eligibility

Recommendation

We recommend that the State continue to complete eligibility redeterminations and perform other corrective measures as outlined in the Mitigation Plan approved by CMS. Further, as the noncompliance issue has continued into fiscal 2018 the State will need to quantify its exposure for federally ineligible claims paid for each population since the 2016 waiver deadlines.

Corrective Action Plan

The State completed most of the redetermination process in line with the CMS mitigation plan by March 2017 except for a few small pockets of populations that were completed by October 2017, and the State was no longer out of compliance with Federal eligibility rules. KPMG was provided a quantification of potential exposure for federally ineligible claims paid for each population since the 2016 waiver deadlines. The State will continue to work with CMS to determine any potential exposure.

Scheduled Completion Date of Corrective Action Plan

Redetermination process was completed as of October 2017. The State will continue to work with CMS to determine any potential exposure.

Contact for Corrective Action Plan

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Finding 2017-002

Department of Vermont Health Access

Health Exchange Premium Reconciliation and Settlement Costs

Recommendation

We recommend that a timely reconciliation of eligibility data between the key systems be performed to ensure that payments are remitted to insurance carriers timely.

Corrective Action Plan

In previous years, technological challenges delayed the State from being fully compliant with the ACA due to system limitations within the State's benefit eligibility system for Medicaid and the State health exchange, Vermont Health Connect (VHC). These functionalities resulted in eligibility differences between the VHC system and the primary insurance carrier for enrollees under the health exchange (BCBSVT) and the premium invoice processor. Beginning calendar year January 2017, the technical functionality shortfalls were remediated through the ongoing monthly enrollment reconciliation with the carriers. Further, reconciliation procedures ensure timely resolution of discrepancies, eliminating the risk of retroactive terminations beyond the 90-day threshold. A settlement is not anticipated for 2017.

Scheduled Completion Date of Corrective Action Plan

The ongoing monthly reconciliation process was in place as of January 1, 2017.

Contact for Corrective Action Plan

Cassandra Madison, DVHA Health Care Eligibility & Enrollment Director
Anne Petrow, DVHA Program Compliance and Oversight Director

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Finding 2017-003

Statewide

Review and Analysis of Accounts Receivable

Recommendation

We recommend that the Department of Finance and Management work with the departments to perform a comprehensive review of their policies and procedures for recording year end receivables to help ensure that the State's financial statements are complete and accurate. Finance should work with each department to provide them with the knowledge and guidance relating to financial accounting and reporting concepts.

We also recommend that individual departments and agencies carefully review amounts reported on the CAFR-1 to ensure completeness and accuracy prior to submission to the Department of Finance and Management.

We further recommend that the Department of Finance and Management evaluate its procedures for reviewing year end closing packages and for analyzing data for completeness and accuracy of financial information received.

Corrective Action Plan

The Department of Finance and Management (DF&M) will continue to work with State agencies and departments to improve their knowledge relating to financial accounting and reporting, and internal controls to help ensure the data which they provide is complete and accurate. DF&M will continue to provide guidance on receivable accruals in the Internal Controls Newsletter that is issued near fiscal year end. DF&M will meet with selected departments and agencies to discuss their process for preparing the CAFR-1, work with them to understand the root cause of the issues found and provide guidance to help them improve their CAFR-1 preparation. DF&M acknowledges that some departments that track receivables using data collection methods from systems that are not financial accounting systems and have been preparing the CAFR-1 based on summary level reports from these systems. DF&M will work with them to ensure their procedures capture the detail supporting the receivables at the time the CAFR-1 is prepared. DF&M will update the CAFR-1 procedures to require agencies and departments to provide the detailed support that ties to the amounts reported on their CAFR-1. DF&M will update procedures for analyzing the completeness and accuracy of the receivables submitted by departments and agencies. Through these efforts the DF&M expects improved accuracy of the amounts accrued for accounts receivable as part of the CAFR-1 accrual entry.

Scheduled Completion Date of Corrective Action Plan

June 30, 2018

Contact for Corrective Action Plan

Nancy Collins, Director of Statewide Reporting

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Finding 2017-004

Agency of Transportation

Department of Motor Vehicles – Revenue Classification

Recommendation

We recommend the Department of Motor Vehicles review its policies and procedures for recording the various types of revenue to ensure that the revenue collected is accurately recorded.

Corrective Action Plan

Under the long-standing database used for this process, revenue code identifiers are similar to each other, and transpositions can be recognized as valid revenue codes. While that system is still in place, a new Point of Sale (cashiering) system (implemented on November 9, 2017) is expected to reduce the number of undetected human errors related to calculating and entering fuel assessment revenues collected in the Commercial Vehicle Office by automating some points of manual entry and allowing for revenue type coding by item and less by batch.

A system-generated itemized receipt, which includes revenue codes, is now provided to the Finance section, offering additional opportunity for quality control and revenue code verification. The additional control of a second employee matching the reports to the receipts will be conducted prior to finalizing a batch in POS.

Staff will monitor the effectiveness of new controls and conduct quality-control checks on revenue coding, adjusting procedures if necessary to achieve desired results.

Scheduled Completion Date of Corrective Action Plan

The corrective action plan will be fully implemented by April 1, 2018.

Contact for Corrective Action Plan

Michael Smith, Director of Operations

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Findings Relating to Federal Awards

Finding 2017-005

U.S. Department of Agriculture

Program Name and CFDA Number

SNAP Cluster

Supplemental Nutritional Assistance Program (CFDA #10.551)
State Administrative Matching Grants for the Supplemental Nutritional Assistance Program
(CFDA #10.561)

Recommendation

We recommend that the Department implement policies and procedures to ensure that benefit calculations are sufficiently reviewed, that the information used is accurate and agrees to the supporting documentation.

Corrective Action Plan

Conditions A and B: The Economic Services Division (ESD) has several control activities in place to identify and correct data entry and calculation errors to ensure benefits are paid in a complete and accurate manner. These measures include Supervisor Case Reviews, Peer Reviews and Quality Assurance Reviews. In addition to these reviews, reminders of the importance of accurate data entry and calculation will be provided to eligibility supervisors to share with district staff at regularly scheduled monthly eligibility supervisor meetings.

Condition B: Both of the errors found in this condition pertain to the calculation and treatment of Self-Employed income. The Department for Children and Families (DCF), Economic Services Division (ESD), Food and Nutrition team is revising the Self-Employment handbook, which provides guidance to eligibility staff on how to properly calculate and enter self-employment income into its eligibility program. Upon completion of the revision, eligibility staff will be trained in the use of the handbook which will provide the necessary knowledge and referential information to resolve data entry and calculation issues. Further, the revised handbook will include specific instructions pertaining to the proper reading and interpretation of the information on tax forms for self-employed applicants and also the proper reading and interpretation of the Division's self-employment income and expenses form. Further, the DCF/ESD Food and Nutrition team and eligibility supervisors will include pertinent federal guidance and regulations topics in the agenda of their regularly scheduled joint monthly meetings.

Scheduled Completion Date of Corrective Action Plan

- A. 3/16/2018: On-going monthly re-emphasis of the importance of accurate calculation and data entry to be implemented.
- B. 6/30/2018: Rewrite of Self-Employment handbook and associated staff training to be completed.

Contact for Corrective Action Plan

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Finding 2017-006

U.S. Department of Agriculture

Program Name and CFDA Number

SNAP Cluster

Supplemental Nutritional Assistance Program (CFDA #10.551)
State Administrative Matching Grants for the Supplemental Nutritional Assistance Program
(CFDA #10.561)

Recommendation

We recommend that the Department implement policies and procedures to ensure the daily EBT reconciliations are performed accurately and completely and that there is a secondary review over the reconciliations.

Corrective Action Plan

DCF agrees that the corrective action developed to address the FY2016 audit finding was not implemented until July 1, 2017 thus causing the repeat finding.

The reconciliation between the Automated Standard Application for Payment (ASAP) and the Department's third-party service provider, Fidelity National Information Services (FIS), is completed and balanced daily by the EBT Specialist. The EBT Director verifies the ASAP Reconciliation daily and indicates their review on the ASAP reconciliation. Monthly, the DCF Audit Director selects a random day within the previous month to verify that day's ASAP Reconciliation. This review is documented with an eSign document that is reviewed and signed by the EBT Specialist, the EBT Director, and the Audit Director. If, at any point discrepancies are found, then the EBT Director is immediately notified and works with FIS to rectify the discrepancies.

Scheduled Completion Date of Corrective Action Plan

July 1, 2017

Contact for Corrective Action Plan

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Finding 2017-007

U.S. Department of Agriculture

Program Name and CFDA Number

SNAP Cluster

Supplemental Nutritional Assistance Program (CFDA #10.551)
State Administrative Matching Grants for the Supplemental Nutritional Assistance Program
(CFDA #10.561)

Recommendation

We recommend that the Department review its existing procedures for preparing the federal report to ensure that the data contained within the report is complete, accurate, and properly supported by sufficient documentation.

Corrective Action Plan

The ACCESS report (PASP601A), from which the data to prepare the FNS-209 Status of Claims Against Household Report (FNS-209) is obtained, may include a beginning balance of the current quarter that is not equal to the ending balance of the prior quarter. To reconcile the difference, certain cases that have adjustments, are compromised or terminated, are required to be included in the adjustments column of the FNS-209. This has been the ongoing procedure of the Department for Children and Families (DCF), however, due to human error, these adjustments were incorrectly added where subtraction was called for and vice versa.

In order to ensure that a complete and accurate quarterly reconciliation is performed, a spreadsheet has been developed that verifies whether the adjustments are required to be positive or negative and proves the net adjustment is correct by comparing the PASP601A adjusted current quarter beginning balances to the prior quarter ending balance. Further, this reconciliation will be reviewed and approved each quarter by the responsible Financial Director prior to the preparation of the associated quarterly FNS-209. This timely quarterly review will be evidenced by the Financial Director's signature and date on the reconciliation document.

Scheduled Completion Date of Corrective Action Plan

March 31, 2018

Contact for Corrective Action Plan

Amy Choquette, Financial Director
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Finding 2017-008

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster

National School Lunch Program (CFDA #10.555)

Summer Food Service Program for Children (CFDA #10.559)

Recommendation

We recommend that the Agency review its existing claims reimbursement process and implement controls to ensure that claims can be submitted timely.

Corrective Action Plan

To address any future issues, the Agency is working with USDA to create a new late claims policy. Part of the process will include determining the scope of late claims as they pertain to issues with the Colyar system versus SFA level claim issues. The Agency will also develop and implement a tracking system for all late claims – including the current late claim exception and CAP system for SFAs. The Agency will also include USDA’s requirements around waivers in the revised policy and will research best practice from other states. The Agency maintains that there was no harm to the federal interest as a result of the late claims being processed and paid and wishes to wait for additional feedback from USDA on whether the questioned costs will be sustained.

Scheduled Completion Date of Corrective Action Plan

April 30, 2018: Claims payment policy completed.

Contact for Corrective Action Plan

Laurie Colgan, Child Nutrition Program Director
Jennifer Gresham, Education Division Director

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Finding 2017-009

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster

National School Lunch Program (CFDA #10.555)

Summer Food Service Program for Children (CFDA #10.559)

Recommendation

We recommend that the Agency review its existing procedures and develop controls to ensure that drawdowns are performed timely in accordance with the State's CMIA agreement.

Corrective Action Plan

The Agency will work to improve compliance with the draw schedule noted in the CMIA agreement and by reviewing internal procedures. In instances where draw dates do not comply with the agreement, the Agency will document non-compliance with the CMIA and file with draw spreadsheets. The Agency will begin to cross-train individuals in the Agency on the draw process so that there is internal redundancy for this function.

During SFY2018, the Agency has been working to improve its compliance with CMIA. Draw procedures have been reviewed and to-date is in a much better compliance position with the CMIA agreement. The cross-training activities will start after examining job duties versus staffing levels and will be completed by the end of the state fiscal year.

Scheduled Completion Date of Corrective Action Plan

July 1, 2018

Contact for Corrective Action Plan

Kathy Flanagan, Financial Director

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Finding 2017-010

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster

National School Lunch Program (CFDA #10.555)

Summer Food Service Program for Children (CFDA #10.559)

Recommendation

We recommend that the Agency:

- A. Review its existing monitoring procedures and develop controls to ensure that risk assessment procedures are performed timely over subrecipients. These procedures should ensure that subrecipient monitoring procedures performed are linked to the specific risks identified as part of the risk assessment process.
- B. The Agency develop written procedures to ensure Uniform Guidance required communications are formally communicated to each subrecipient who participates in the program.
- C. The Agency review its existing programmatic monitoring procedures and develop controls to ensure that all procedures are performed timely and are properly documented. The written procedures should ensure that all required documentation is compiled and maintained to support each monitoring visit and whether or not matters identified during the review require corrective action. Further, a supervisory review should be conducted to ensure each file is complete prior to closure.

Corrective Action Plan

- A. Risk Assessment: As of August 7, 2017, Child Nutrition Programs began completing the Risk Assessment as part of the annual program new application and renewal process.
- B. UG Requirements Communicated to Sub recipients: As stated in the Views of Responsible Officials, we disagree with this portion of the finding. A clarification regarding this requirement has been submitted to USDA and we are awaiting a response.
- C. Monitoring Procedures: As of program review year 2018, an analysis of processes was conducted by a consultant. As result, new procedures were implemented including using a review report template this is completed for each review which includes the findings, required corrective action and documentation to submit for the corrective action. These issues are discussed at the exit conference, the final report is finished at the office and then sent to the SFA within the required timeframe. The Director completes an Administrative Review spreadsheet to track review dates, date report is sent, CA due, Received and review closure data. This serves a reminder for staff to follow up on CA, to suspend payments, and complete closures as needed.

This process will be re-evaluated through a LEAN event engaging all staff to determine barriers in the process and to identify areas for increased efficiencies.

Scheduled Completion Date of Corrective Action Plan

- A. August 31, 2017: Risk assessment was implemented.
- B. January 17, 2018: Communication sent to USDA.
- C. November 30, 2017: Revised monitoring procedures were put into place.
March 31, 2018: LEAN events for the re-evaluation begin.
November 30, 2018: New process in place.

Contact for Corrective Action Plan

Laurie Colgan, Child Nutrition Program Director
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Finding 2017-011

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster

National School Lunch Program (CFDA #10.555)

Summer Food Service Program for Children (CFDA #10.559)

Recommendation

We recommend that the Agency review its existing procedures to ensure that there are adequate controls and procedures in place to ensure funds paid to subrecipients for matching purposes are adequately documented and reconciled to ensure the federally required match has been met.

Corrective Action Plan

While the Agency disagrees with the wording of the cause of the condition, we do not disagree with the effect of that condition. Therefore, Child Nutrition Programs staff will continue the plan put into place last year upon receiving this finding and add a procedural escalation plan.

- A. Training Plan: Child Nutrition Program staff are trained annually on reading financial reports for accuracy and matching against required state information.
- B. Escalation Policy: A standardized escalation policy will be implemented that states how many times a request is made prior to moving a request up the chain on both the SFA (business manager, superintendent and school board chair) and Agency (Director, Deputy, Secretary) sides to ensure correct information is returned to the Agency.

Scheduled Completion Date of Corrective Action Plan

- A. July 31, 2018: Annual training on financial reports for Child Nutrition staff begins in July 2018.
- B. March 31, 2018: Escalation Policy will be completed and implemented.

Contact for Corrective Action Plan

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Finding 2017-012

U.S. Department of Agriculture

Program Name and CFDA Number

Child Nutrition Cluster

National School Lunch Program (CFDA #10.555)

Summer Food Service Program for Children (CFDA #10.559)

Recommendation

We recommend that the Agency implement policies and procedures to ensure that there are adequate controls in place to ensure USDA foods are properly tracked, reconciled, and reported.

Corrective Action Plan

The Agency will take several steps to ensure there are adequate controls in place to properly track, reconcile, and report USDA foods.

1. The USDA Foods Consultant will reconcile the “SDA Entitlement Summary Report” with the “Value of Commodities Received Report” prior to sending out the “Value of Commodities Received Report” to SFAs. Conducting such a reconciliation will alert the USDA Foods Consultant to correct underlying errors when they occur.
2. The USDA Foods consultant has instructed the warehouse not to make transfers that do not come directly from the Agency and, beginning in June 2017, the USDA Foods Consultant’s process was changed to better track these transfers. Two new Outlook folders have been created for “Transfers to be entered into WBSCM” and “Completed Transfers”. This new process allows for easy identification of any transfers that still need to be completed. In the March 2018 quarter, the USDA Foods Consultant began spot checking a minimum of 15 SFA accounts per quarter and implemented a reconciliation process. The 15 SFAs per quarter will be chosen randomly resulting in 30 SFA accounts checked in FY2018 and 60 SFA accounts each year thereafter. The USDA Foods Consultant will document this review with a spreadsheet showing the date each SFA was checked.
3. The USDA Foods Consultant will use WBSCM to calculate the value of missing/damaged product and email the warehouse requesting a credit or replacement be issued within 10 days of notification or discovery of missing/damaged product.

Scheduled Completion Date of Corrective Action Plan

1. July 31, 2018
2. June 30, 2017: Transfer tracking process.
December 31, 2017: Verbal Instruction to the warehouse.
February 28, 2018: Follow-up written instruction to warehouse.
March 31, 2018: WBSCM to TRACS reconciliation.
3. February 28, 2018

Contact for Corrective Action Plan

Mary “Rosie” Krueger, USDA Foods Consultant
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Finding 2017-013

U.S. Department of Agriculture

Program Name and CFDA Number

Child and Adult Care Program (CFDA #10.558)

Recommendation

We recommend that the Agency review its existing monitoring procedures and develop controls to ensure that risk assessment procedures are performed timely over subrecipients. These procedures should ensure that subrecipient monitoring procedures performed are linked to the specific risks identified as part of the risk assessment process. Written procedures should also be developed to ensure that prior to the execution of a grant agreement, the agreement is reviewed and contains all the data as outlined in 2 CFR Section 200.331(a)(1).

Corrective Action Plan

- A. ***UG Requirements Communicated to Sub recipients:*** As stated in the Views of Responsible Officials, we disagree with this portion of the finding. A clarification regarding this requirement has been submitted to USDA and we are awaiting a response.
- B. ***Uniform Guidance Audit:*** The Agency is unaware of a remedy for this type of situation in Uniform Guidance. This was not a finding in the AOE single audit last year in FY2016 – it was a point of discussion. Feedback from the auditors at that time was that it is not the role of the Agency to audit the performance of the Local Education Agency's (LEA's) independent auditors. The same auditor made the same error in FY2016 for the same LEA for the same funds. The Agency was told we have no authority over the quality of the independent auditors for the SFAs. The Agency has added a step to its audit review checklist to verify that all grants passed through the Agency are correctly listed on the SEFA. If there is a mistake or missing information in the SEFA the Agency will identify the mistake to the subgrantee in writing.
- C. ***Risk Assessment:*** As of August 7, 2017, Child Nutrition Programs began completing the Risk Assessment as part of the annual program new application and renewal process.

Scheduled Completion Date of Corrective Action Plan

- A. January 17, 2018: Communication sent to USDA.
- B. Completed
- C. Completed

Contact for Corrective Action Plan

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Finding 2017-014

U.S. Department of Labor

Program Name and CFDA Number

Unemployment Insurance (CFDA #17.225)

Recommendation

We recommend the State review its existing procedures for preparation of the SEFA to ensure that expenditures are captured and reported accurately.

Corrective Action Plan

The initial errors in this year's SEFA report were caused by double reporting some UI benefit side expenditures. There was a lack of communication between the UI Cashier's Office and the fiscal unit when preparing the SEFA report which lead to the duplicate reporting of \$2.1 million in expenditures. The Vermont Department of Labor (VDOL) did not have sufficient controls in place to catch the errors before the submittal.

The VDOL fiscal unit has implemented a formal procedure for the preparation of the SEFA report. This procedure includes checks at each step during the process to ensure accuracy and completeness.

Scheduled Completion Date of Corrective Action Plan

December 31, 2017

Contact for Corrective Action Plan

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Finding 2017-015

U.S. Department of Transportation

Program Name and CFDA Number

Formula Grants for Rural Areas (CFDA #20.509)

Recommendation

We recommend that the Agency review its existing monitoring procedures and ensure that the Agency maintains adequate documentation to support their monitoring procedures and that planned deviations from their approved subrecipient monitoring plan are properly documented and approved as necessary.

Corrective Action Plan

Both sections A and B of the finding are correct. Causal circumstances included (A) the merger of two transit providers, and (B) a file misplaced by a gravely ill employee. The two providers (now merged into one) are being monitored in the coming weeks. The missing monitoring documentation is being reconstructed and a close-out for that review is in the process of being completed.

The Public Transit Program Manager is responsible for the Public Transit Unit's adherence to the subrecipient monitoring policy and has reviewed the current monitoring requirements and status of Vermont transit providers. In order to more closely track the completion and documentation of on-site reviews in alignment with the monitoring policy, the Public Transit Program Manager has established a chart listing the monitoring schedules and actions completed for each subrecipient and will more closely track completion and documentation of subrecipient monitoring work as an ongoing practice going forward.

Scheduled Completion Date of Corrective Action Plan

December 20, 2017

Contact for Corrective Action Plan

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Finding 2017-016

U.S. Department of Transportation

Program Name and CFDA Number

Highway Safety Cluster:

- State and Community Highway Safety (CFDA #20.600)
- Alcohol Impaired Driving Countermeasures Incentive Grants I (CFDA #20.601)
- Occupant Protection Incentive Grants (CFDA #20.602)
- Safety Belt Performance Grants (CFDA #20.609)
- State Traffic Safety Information System Improvement Grants (CFDA #20.610)
- Incentive Grant Program to Prohibit Racial Profiling (CFDA #20.611)
- Incentive Grant Program to Increase Motorcyclist Safety (CFDA #20.612)
- Booster Seat Incentive Grants (CFDA #20.613)
- National Priority Safety Programs (CFDA #20.616)

Recommendation

We recommend the Agency review its existing policy for approval of grant expenditures to ensure that all the appropriate approvals are acquired for each expenditure request.

Corrective Action Plan

We agree that workflow and approval controls have been weak. As a result of VTrans' consolidation of business office functions, including centralized accounts payable, the Grants Electronic Application and Reporting System (GEARS) was implemented for grant payments on October 1, 2017. Moving forward in FFY18 GEARS will eliminate missing or improperly reviewed workflows. The GEARS work flow requires the invoices to go to the program coordinator role for review. After the program coordinator has reviewed the invoice, it is moved into program administrator review. There is a status history section that documents the time, date and name of anyone who changes the status within the grant/invoice. The GHSP policy and procedures document will be reviewed with staff to ensure that proper process flows and signatures are obtained before payment.

Scheduled Completion Date of Corrective Action Plan

October 1, 2017

Contact for Corrective Action Plan

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Finding 2017-017

U.S. Department of Transportation

Program Name and CFDA Number

Highway Safety Cluster:

- State and Community Highway Safety (CFDA #20.600)
- Alcohol Impaired Driving Countermeasures Incentive Grants I (CFDA #20.601)
- Occupant Protection Incentive Grants (CFDA #20.602)
- Safety Belt Performance Grants (CFDA #20.609)
- State Traffic Safety Information System Improvement Grants (CFDA #20.610)
- Incentive Grant Program to Prohibit Racial Profiling (CFDA #20.611)
- Incentive Grant Program to Increase Motorcyclist Safety (CFDA #20.612)
- Booster Seat Incentive Grants (CFDA #20.613)
- National Priority Safety Programs (CFDA #20.616)

Recommendation

We recommend the Agency review its procedures for obtaining documentation to support the reasonableness of the indirect cost rate used by the Department and ensure that the rate used is correct as well as updated and approved annually.

Corrective Action Plan

VTrans did not adequately review six invoices from Department of Public Safety (DPS) presented for payment during FY17. The indirect cost rate used on the invoices was incorrect; DPS used rates which were not in effect. To correct the error, an accounting of each discrepancy was prepared, and the net result was that VTrans should have paid an additional sum of \$6,812.09 to DPS if the correct rates had been billed. This information was submitted for review to DPS on 2/12/18 and VTrans has since paid DPS their net due.

In the months since these errors, VTrans has implemented an Agency-wide overhaul of its payment processing and invoice review procedures in conjunction with a consolidation of its business office functions. All accounts payable staff have been provided with a checklist for use when reviewing invoices.

All invoices received from DPS from 7/1/2017 to present have been audited for use of the correct indirect cost rate where applicable. DPS has been reminded that the current rate expires June 30, 2018 and has been advised to contact the cognizant federal agency to avoid a lapsed rate.

Highway Safety staff will continue to be notified of indirect rates and their effective dates in order to more effectively review invoices. Further training related to the appropriate use of indirect rates has taken place. Additionally, VTrans Accounts Payable has been consolidated under one manager and consistent procedures have been established for the review of invoices.

Scheduled Completion Date of Corrective Action Plan

December 1, 2017: Modified AP procedures.

February 23, 2018: Payment to DPS.

Contact for Corrective Action Plan

Cathy Hilgendorf, VTrans Audit Chief

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Finding 2017-018

U.S. Department of Transportation

Program Name and CFDA Number

Highway Safety Cluster:

- State and Community Highway Safety (CFDA #20.600)
- Alcohol Impaired Driving Countermeasures Incentive Grants I (CFDA #20.601)
- Occupant Protection Incentive Grants (CFDA #20.602)
- Safety Belt Performance Grants (CFDA #20.609)
- State Traffic Safety Information System Improvement Grants (CFDA #20.610)
- Incentive Grant Program to Prohibit Racial Profiling (CFDA #20.611)
- Incentive Grant Program to Increase Motorcyclist Safety (CFDA #20.612)
- Booster Seat Incentive Grants (CFDA #20.613)
- National Priority Safety Programs (CFDA #20.616)

Recommendation

We recommend the Agency of Transportation review its existing procedures for preparing the HS 217 report and ensure the amounts in the report are supported by documentation including the documentation of assumptions or estimates used in the report.

Corrective Action Plan

After the July 1, 2017 submission and NHTSA approval of the Highway Safety Plan for FFY18, federal reporting requirements related to Highway Safety funding changed. 23 CFR Part 1300.11(d) eliminates form HS-217 effective beginning in federal fiscal year 2018. The new reporting requirements within the Grants Management Solutions Suite (GMSS) have not yet been released, but when they are, the Agency of Transportation (VTrans) intends to comply and will maintain all documentation used to support each piece of data reported.

By April 1, 2018, Vermont's Governor's Highway Safety Program will begin to track funding by award year, maintaining documentation to link each transaction, each project, and each federal drawdown amount to a specific year's award. Not only will the additional tracking support state match record-keeping but will provide additional evidence of actual project expenditures to support project information reported and any estimates/projections used. The VTrans Audit Section will verify compliance.

Scheduled Completion Date of Corrective Action Plan

April 1, 2018

Contact for Corrective Action Plan

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Finding 2017-019

U.S. Department of Transportation

Program Name and CFDA Number

Highway Safety Cluster:

- State and Community Highway Safety (CFDA #20.600)
- Alcohol Impaired Driving Countermeasures Incentive Grants I (CFDA #20.601)
- Occupant Protection Incentive Grants (CFDA #20.602)
- Safety Belt Performance Grants (CFDA #20.609)
- State Traffic Safety Information System Improvement Grants (CFDA #20.610)
- Incentive Grant Program to Prohibit Racial Profiling (CFDA #20.611)
- Incentive Grant Program to Increase Motorcyclist Safety (CFDA #20.612)
- Booster Seat Incentive Grants (CFDA #20.613)
- National Priority Safety Programs (CFDA #20.616)

Recommendation

We recommend the Department review its existing procedures for tracking the availability of matching source of funds to ensure that the matching documentation is complete and accurate.

Corrective Action Plan

The Agency of Transportation's (VTrans) Highway Safety Program is establishing new tracking and controls to align specific transactions and amounts directly to match requirements. This will allow VTrans to demonstrate meeting the match requirement dollar for dollar and will offer specific expenditures to validate allowability.

Scheduled Completion Date of Corrective Action Plan

April 1, 2018

Contact for Corrective Action Plan

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Finding 2017-020

U.S. Department of Transportation

Program Name and CFDA Number

Highway Safety Cluster:

- State and Community Highway Safety (CFDA #20.600)
- Alcohol Impaired Driving Countermeasures Incentive Grants I (CFDA #20.601)
- Occupant Protection Incentive Grants (CFDA #20.602)
- Safety Belt Performance Grants (CFDA #20.609)
- State Traffic Safety Information System Improvement Grants (CFDA #20.610)
- Incentive Grant Program to Prohibit Racial Profiling (CFDA #20.611)
- Incentive Grant Program to Increase Motorcyclist Safety (CFDA #20.612)
- Booster Seat Incentive Grants (CFDA #20.613)
- National Priority Safety Programs (CFDA #20.616)

Recommendation

We recommend that the Agency implement policies and procedures to ensure it properly tracks expenditures by federal award year in order to ensure that the expenditures reported within the Federal-Aid Reimbursement Voucher are complete and accurate. As part of their procedures, documentation should be maintained that supports that the Agency has complied with applicable federal earmark requirements and the progress towards meeting those earmark requirements has been monitored throughout the award year.

Corrective Action Plan

The Highway Safety Program will begin assigning a specific award year to each expenditure and specifying the state, federal, and local shares which make up each expenditure. The new recordkeeping will be reviewed quarterly and will align with the information required on the Federal-Aid Reimbursement Voucher.

Scheduled Completion Date of Corrective Action Plan

April 1, 2018

Contact for Corrective Action Plan

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Finding 2017-021

U.S. Department of Education

Program Name and CFDA Number

Race to the Top – Early Learning Challenge (CFDA #84.412)

Recommendation

We recommend that management within the Department for Children and Families, the Department of Health, and the Agency of Education review their existing procedures for reviewing and approving invoices for payment and implement internal controls to ensure that all invoices are properly reviewed and approved prior to payment. The approval process should include documentation of the review of supporting information to ensure that the services rendered are consistent with the services outlined within its existing grant or contract with the vendor.

Corrective Action Plan

Department for Children and Families (DCF)

The Child Development Division (CDD) acknowledges that the findings and reported conditions in this FY2017 single audit are repeats from the FY2016 single audit. However, the audit test samples selected, that resulted in the repeat findings for 2017, can be attributed to the fact that the sample period used was prior to the implementation of our corrective action plan that we developed after the FY16 audit.

The DCF Business Office has updated their Accounts Payable (AP) processing procedures to ensure invoices include approval dates and signatures prior to processing for payment.

CDD has revised its payment request form to include a section for narrative descriptions of the services and/or expenditures being invoiced. CDD's payment processing team will ensure adequate descriptions and supporting documentation per the terms of the grant/contract are included with the payment requests and that documented approval of the documentation submitted by an authorized representative for the division has been received and recorded prior to submitting an invoice for payment to the DCF Business Office.

The FY2016 corrective action plan was completed prior to the start of FY2018, consequently, DCF and CDD do not expect this finding to repeat in the future.

Vermont Department of Health (VDH)

The contract invoices for the Department of Health were reviewed and approved for programmatic compliance with project objectives by the Division Director. The Division Director's review did not involve review of the backup documentation to confirm consistency with the invoice, use of correct hourly rates, accuracy of computations, etc. (i.e. accounting review). Future invoices reviewed by the Division Director, will also include an accounting review by an Administrative Services Coordinator.

In addition, the "Maternal and Child Health (MCH) Grants and Contracts Procedure" manual will be revised to specify that invoices will not be submitted to the Business Office for payment unless there has been an accounting review as well as a program review, as evidenced by the initials and review date of both the program reviewer and the accounting reviewer.

Agency of Education (AOE)

The Agency acknowledges that fiscal monitoring did not occur. In order to correct this going forward, The Agency's Early Education Team, with technical assistance from our Federal Fiscal Monitoring Team, will conduct fiscal monitoring on an annual basis for 100% of the Race to the Top subrecipients. The Early Ed Team will develop a written monitoring protocol to inform the fiscal monitoring process that includes reviewing expenditures for allowability under the federal regulations and a report identifying correction actions needed, as required.

Scheduled Completion Date of Corrective Action Plan

Department of Children and Families

January 1, 2017: Updated Accounts Payable Processing Procedure was implemented.
February 1, 2017: Revisions to payment processing and document retention procedures was implemented.
April 1, 2017: Revised payment request form and associated process was implemented.

Vermont Department of Health

March 1, 2018: Administrative Coordinator assigned responsibility for accounting review.
May 1, 2018: Revision of MCH Grants and Contracts Procedure Manual.

Agency of Education

June 30, 2018: Implementation of fiscal monitoring for subgrantees.

Contact for Corrective Action Plan

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Finding 2017-022

U.S. Department of Education

Program Name and CFDA Number

Race to the Top – Early Learning Challenge (CFDA #84.412)

Recommendation

We recommend the Department for Children and Families and the Agency of Education review their existing policies and procedures to ensure documented subrecipient monitoring procedures are in place that outline the types of programmatic and fiscal monitoring to be performed. They should also ensure that the results of monitoring activities are properly documented.

Corrective Action Plan

Agency of Education (AOE)

Race to the Top subrecipient monitoring procedures will be revised to incorporate closure letters to ensure documentation that subrecipients have properly completed the necessary scope of work as specified in their grant. This will ensure that all monitoring activities are properly documented, tracked and closed.

Department for Children and Families (DCF)

The Child Development Division (CDD) acknowledges that the findings and reported conditions in this FY2017 single audit are repeats from the FY2016 single audit. However, the audit test samples selected that resulted in the repeat findings for FY2017, can be attributed to the fact that the sample period used was prior to the implementation of our corrective action plan that we developed after the FY2016 single audit.

CDD has developed and implemented new programmatic and fiscal monitoring processes for all grantees using a risk-based approach. Also, the CDD Contracts and Grants Team, in collaboration with individual program managers, completed updates to the risk assessments of all active grantees. All grantees with risk assessed as medium or high will have site visits.

DCF has updated procedures and implemented a checklist for all required award identification information to be reviewed by the grants and contracts unit director prior to moving agreements forward for signature to ensure that grant agreements are complete and accurate before being entered into with the grantee. In addition, the Agency of Human Services Internal Audit Group has modified their single audit report review checklist to include reviewing the CFDA name along with the CFDA number.

Further, to ensure more accurate and timely payments and also the review and retention of supporting documents and reports, CDD has implemented the following:

- 1) Created a centralized collection point for receipt, review and approval of all CDD contract and grant invoices and reports;
- 2) Established a Contract & Grant Payment Processing Team to perform quality assurance reviews of all invoices and reports prior to processing
- 3) Implemented a systematic and documented process for the review and approval of all invoices and reports for completeness and accuracy; and
- 4) Instituted certification requirements for all invoices and reports that will provide documented evidence of review and approval.

Scheduled Completion Date of Corrective Action Plan

Agency of Education (AOE)

February 15, 2018: Closure letters sent to subrecipients
March 15, 2018: Subrecipient monitoring procedures updated

Department for Children and Families (DCF)

January 1, 2017: Document review of progress and financial reports submitted in accordance with the terms and conditions of the grant was completed.
March 31, 2017: The single audit review checklist was updated.
May 1, 2017: Updated risk assessments were completed.
June 30, 2018: Grantee site visits completed.

Contact for Corrective Action Plan

Kate Rogers, AOE Early Learning Program Manager
Tim Gariboldi, DCF Contracts and Grants Administrator
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Finding 2017-023

U.S. Department of Health and Human Services

Program Name and CFDA Number

Temporary Assistance for Needy Families (TANF) (CFDA #93.558)

Recommendation

We recommend that the Department review its procedures and implement sufficient controls to ensure that all required documentation is obtained, reviewed, approved, and maintained for each participant's determination of eligibility.

Corrective Action Plan

The State of Vermont currently fulfills the tested federal requirement (42 USC 608(a)(3)) and (42 USC 602(a)(1)(B)(iii)) by collecting the "Child and Medical Support Authorization and Application for Services Form" and the "Shelter Expense Statement". All Benefit Program Specialists who process TANF/Reach Up applications have been trained to request this documentation and the Department has a Quality Review process in place to review 60 cases per month to verify that all required documentation has been received. To prevent similar errors from occurring, the Department will increase Quality Review hours from 15 hours per week to 20 hours per week. This change will allow approximately 20 additional cases per month to be reviewed. The Quality Review Specialist will comprehensively review client case files to ensure that all required documentation is maintained including "Child and Medical Support Authorization and Application for Services Forms" and "Shelter Expense Statements". All findings will be sent to the Supervisor in the District where the error was made. Supervisors meet with their staff at least once per month, and any findings will be used as a teachable moment to analyze and correct the findings.

In addition, the Department has proposed a state rule change which would eliminate the eligibility criterion under Reach Up rule 2211.3(D) requiring the verification of shelter expenses. The Department will continue to collect participant self-reported shelter expense information on the initial "Application for Benefits," and then yearly during the participant's annual review via the "Application for Benefits Review." This change will align the Reach Up program with the other assistance programs administered by the Department and prevent errors of omission associated with collecting the "Shelter Expense Statement" from occurring. The proposed rule is scheduled to take effect May 8th, 2018; pending public comment and legislative review.

Scheduled Completion Date of Corrective Action Plan

March 5, 2018: Began increased Quality Review hours.

Contact for Corrective Action Plan

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Finding 2017-024

U.S. Department of Health and Human Services

Program Name and CFDA Number

Low-Income Home Energy Assistance (CFDA #93.568)

Recommendation

We recommend the Department review its existing procedures for preparing the federal report to ensure that the data contained within the report is complete, accurate and is properly supported by sufficient documentation.

Corrective Action Plan

- A. The Department for Children and Families, Information System Division completed a project on July 1, 2017 to modify the extract from the ACCESS system. The extract is now configured to calculate the actual Federal Poverty Level (FPL) of each case, which allows for more robust reporting. This change will allow the exact number of households to be reported by FPL on the Annual Report of Households. The accuracy of the new extract was verified during the User Acceptance Testing (UAT) and DCF is confident that this will prevent future errors to occur.

This is a repeat finding from the prior year. At issue was that the extract put households into ranges of federal poverty level (e.g. "144% - 154%") rather than assigning an exact FPL (for detail of the issue and the system fix see the FY16 Corrective Action Plan). Due to the timing of the audit versus the timing of the Annual Report of Households, KPMG reviewed the report for dates 10/1/2015-9/30/2016 which was submitted on 1/6/2017. The report dates being prior to the IT fix implementation caused the repeat finding.

- B. The majority of the findings related to Bullet B have been resolved with the more robust data extract described in Bullet A of this corrective action plan. Issues not resolved by the IT fix have been addressed by the creation of a written procedure that contains clear guidelines and instructions for gathering the necessary data to insure accurate preparation of the Annual Report on Households.

Information for this report is also collected from sources outside of the ACCESS system. The Community Action Agencies that oversee crisis fuel and the Office of Economic Opportunity that provides weatherization services also provide information that is required on the Annual Report on Households. The written procedure details how to collect and compile the information from sources outside ACCESS to accurately complete the Annual Report of Households.

Scheduled Completion Date of Corrective Action Plan

- A. July 1, 2017: ACCESS extract modified.
B. July 1: IT fix completed.
December 7, 2017: Written procedures to prepare the annual report on households.

Contact for Corrective Action Plan

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Finding 2017-025

U.S. Department of Health and Human Services

Program Name and CFDA Number

Foster Care-Title IV-E (CFDA #93.658)

Recommendation

We recommend that the Department review its existing controls and procedures to ensure that the eligibility status of children is reviewed timely.

Questioned Costs

\$5,934

Corrective Action Plan

Condition A: Payment for this ineligible child happened despite the hard coding in the Department for Children and Families (DCF) case management system (SSMIS) that should have determined this payment was in error. The SSMIS system is over 30 years old and experiences frequent issues/problems for which DCF staff must create manual work-arounds and auditing functions to ensure that the hard coding of the Title IV-E eligibility requirements are running correctly. The Revenue Enhancement Unit (REU) began a series of meetings in January 2018 with the DCF IT department to ensure that the rules governing Title IV-E eligibility are clearly understood and properly coded in SSMIS. Relative to this finding specifically, REU has informed IT that in order for a child to be Title IV-E eligible, in addition to a custody date there must be a date entered into the Initial Reasonable Efforts screen in SSMIS. IT will ensure that the coding reflects that rule and no Title IV-E funds are drawn down when the Initial Reasonable Efforts field is left empty.

Condition B: The case management system (SSMIS) already includes coding that disallows Title IV-E payments when a child in custody has a late permanency reasonable efforts finding (PREA). However, because the SSMIS system is over 30 years old, when there are upgrades to the system or system outages, sometimes Title IV-E eligibility requirements that are coded into the system are lost. As a result, REU will implement an internal auditing system to check that the system controls have held after an upgrade or outage of the SSMIS system.

Conditions A and B: In order to provide quality assurance and auditing functions for this program, REU requires access to complete payment histories of all Title IV-E payments made on behalf of children in custody in order to verify that all payments made have been in compliance with program requirements. Currently, the payment history is only available through special request and is difficult to obtain due to the time constraints on the DCF IT department. REU is currently working with the IT department to create a IV-E payment history report that could be run by REU whenever so desired. Along with this new report, REU will create a quality assurance process governing how often the report is run and how it will be used.

Questioned Costs: DCF agrees with the calculation of the questioned costs and will return those funds to the Federal government. This refund will be completed through a Cost Allocation Plan (CAP) adjustment, which will go through to the Federal Report. This will be completed for the quarter ending 3/31/2018.

Scheduled Completion Date of Corrective Action Plan

June 30, 2018: SSMIS coding changes and REU internal auditing system in place.

September 1, 2018: Payment history report and quality assurance process in place.

Contact for Corrective Action Plan

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Finding 2017-026

U.S. Department of Health and Human Services

Program Name and CFDA Number:

Foster Care-Title IV-E (CFDA #93.658)

Recommendation

We recommend that the Department review its existing controls and procedures to ensure that adequate documentation is maintained for all providers to validate the provider's training level to ensure that rates paid to providers above the base rate is accurate. We further recommend that the Department review its procedures licensing providers to ensure that all required documentation to support that the provider is eligible for licensure has been obtained prior to issuing a license or paying for services using federal Foster Care funds.

Questioned Costs: \$6,358 (FY2017 portion)

Corrective Action Plan

Condition A:

The current electronic control for disallowing I-VE drawdown is embedded in the interrelationship between two SSMIS (Social Services Management Information System) database screens:

- Foster Care Database (FOSDB) Screen is a section of SSMIS in which pertinent licensing data regarding individual foster care licensees is entered.
- SSMIS Payee Screen directs payment to individuals as entered.

The presence of a compliance date in the FOSDB screen alerts the Department for Children and Families (DCF) Business Office via the Payee Screen to allow I-VE drawdown. Likewise, the absence of this date in an existing FOSDB screen disallows IV-E drawdown through the related Payee Screen. An evident weakness of the current system of controls is that when no foster care database screen exists the compliance date control is not active. This problem occurs when district office staff enter Payee Screens for new foster care placements without providing the Residential Licensing & Special Investigations (RLSI) team with the related foster care application. RLSI only enters new FOSDB screens when there is the receipt of licensing application. RLSI is the only entity allowed to enter FOSDB screens as it is a control to ensure proper licensure and child safety. Corrections as described below will ensure that any entered Payee Screen will have a matching FOSDB screen.

1. The RLSI Unit will now create FOSDB screens for out of state Interstate Compact on the Placement of Children (ICPC) placed children and youth. This was not previously a practice as these homes were not licensed by RLSI.
2. The DCF Business Office will review each placement and corresponding Payee screen and ensure that there is also a corresponding FOSDB screen. They will alert RLSI to situations where this is not the case. (new control)
3. RLSI will alert district office staff of the need for explanation or an application for foster care which will then result in the entry of an appropriate FOSDB screen. Notification will be triggered by the DCF Business office staff alerting through email to RLSI Administrative staff on at least a monthly basis at the time the DCF Business Office certifies the foster care payroll.
4. The DCF Business Office will hold all payment to any party without a complete application reflected in the foster care database.

Questioned Costs: DCF agrees with the calculation of the questioned costs and will return the total amount paid in maintenance costs, in the amount of \$13,407, to the Federal government. This refund will be completed through a Cost Allocation Plan (CAP) adjustment, which will go through to the Federal Report. This will be completed for the quarter ending March 31, 2018.

Condition B:

Recent improvements put in place as part of our FY2016 corrective action plan have enabled RLSI to notify, in real time through an upgraded database, the foster care homes that receive higher reimbursement due to additional training. Completion of general foundations training is still outstanding for a small number of foster home licensees. To address this cohort of licensees:

1. RLSI has requested that the DCF Information Technology (IT) staff create an automated report that will alert RLSI regarding licensed foster parents who have not been trained two months prior to the one-year anniversary of foster care licensure.
2. RLSI will develop business procedures to notify the local district Resource Coordinators of foster care licensees to homes noted in this report.
3. The Director of RLSI in concert with the System of Care Foster Care Manager will revisit and clarify policy and procedure expectations with the district office Resource Coordinators. This will include updating them regarding the availability of the new training report (in bullet 1) and of the opportunity to seek a variance to the training regulation as per Division policy.
4. The Director of RLSI in concert with the System of Care Foster Care Manager will confirm with the University of Vermont (UVM) Child Welfare Training Partnership (which trains the foster parents) protocols for them to provide documentation of training provided and certificates for inclusion in the foster care licensing files. We will seek a secondary control through use of their proprietary database to determine parties who have not been trained or failed to complete training.

Condition C:

Adam Walsh background checks are submissions and receipts from child welfare agencies within the state(s) where an applicant resided within the past five years. They determine if the applicant is on the state child abuse registry. During Spring 2017, in preparation for a federal Title IV-E audit, RLSI identified a weakness in the documentation of completion of the Adam Walsh background check process and implemented changes to resolve this weakness. The federal IV-E audit resulted in no findings in this area as no applicable case was selected. However, the current audit identified these errors because the period under review (PUR) extended back into the period prior to initiation of procedure changes. As a result of the identification of this weakness the first three steps below were implemented after the federal audit. The fourth step had not taken place as of this current audit:

1. Each foster care application is tracked with a Face Sheet. The Face Sheet has been modified to prompt the evaluating Supervisor to positively identify that the three essential components of compliance have been completed: a) visit to home, b) fingerprint supported background checks received, and c) Adam Walsh state child abuse registry results received when necessary. The latest of these three dates is assigned as the compliance date.
2. RLSI administrative staff have updated an Excel spreadsheet that tracks in real time the stages through which an Adam Walsh request is proceeding.
3. RLSI staff will also review the Face Sheet for appropriate documentation prior to entering the final compliance date in the foster care database.
4. RLSI staff will implement a review plan that will entail the individual file review of all existing currently licensed foster homes as of 03/01/2018 to determine if Title I-VE compliance was compromised by an Adam Walsh error.

Condition D:

Vermont DCF Family Services Division (FSD) completes site visits of every out of state facility in which Vermont children are placed. These visits are initially completed by the Residential Services Unit, sometimes in connection with a representative from the RLSI, and occur monthly thereafter by the child's social worker. However, FSD acknowledges that the Title IV-E program requirement that FSD verify documentation showing that safety checks have been completed on the staff are not viewed or collected on these visits. Beginning in December 2017, FSD began work to strengthen the out of state contract process to ensure that the required safety check information is obtained prior to Title IV-E funds being expended for the placement. This process is a collaboration with the Residential Services Unit, RLSI, and the Revenue Enhancement Unit (REU), which is responsible for creating contracts with the residential programs. This plan will include new contract language and contract requirements of the out of state residential providers. The plan will also include a process for establishing a connection with the state licensing entity responsible for licensing the residential programs in each state in which Vermont has placed children. It is this entity in each state that must provide the safety check information required by the Title IV-E program. Once adopted, the plan will be supported by the REU Quality Assurance Coordinator under the direction of the Revenue Enhancement Director.

Scheduled Completion Date of Corrective Action Plan

Condition A: March 1, 2018: Questioned costs returned with QE March 31, 2018 federal reports.

Condition B: June 30, 2018

Condition C: June 30, 2018

Condition D: April 30, 2018: Revised contract process.

June 30, 2018: Required safety check documentation.

Contact for Corrective Action Plan

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Finding 2017-027

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Health Care Providers and Suppliers (CFDA #93.777)

Medical Assistance Program (CFDA #93.778)

Recommendation

We recommend that the Department review its procedures over obtaining and validating documentation reported by applicants that is used to determine Medicaid eligibility. A process of supervisory or quality control review would ensure that all information is correct, thus supporting an applicant's eligibility. The collection and verification of accurate information would ensure the State is in compliance with all federal regulations. In addition, we recommend that the Department review the internal control deficiencies related to the ACCESS system identified during the period ending June 30, 2012 and continue to take appropriate actions to ensure that all deficiencies related to access to program data, change management, and computer operations are resolved in order to ensure the integrity of the data maintained within the ACCESS system.

Corrective Action Plan

Condition A: The Agency of Digital Services (ADS) staff supporting the Department of Children and Families (DCF) has identified the need to further refine its Internal Security and Audit Procedures to remain in compliance with National Institute of Standards and Technology (NIST), Internal Revenue Service (IRS), Federal 45 CFR, and other associated regulations. To address the lack of IT Security Policy and Plans, the State has entered into a contract with Janus Software, Inc. (Janus), a third-party organization specializing in the IT audit and security controls of mainframe applications. Janus will be executing a security audit of the ACCESS system and also working with the ADS staff supporting DCF to develop proper Internal IT Audit and Security Procedures. It is expected that the security audit together with the internal IT audit and security procedures will prevent this finding and also all of the associated internal control deficiencies related to the ACCESS system identified during the state fiscal year ending June 30, 2012 from repeating in the future.

Conditions B-F: The Department of Vermont Health Access (DVHA) has enhanced its healthcare quality control program. As of 9/28/2017, DVHA's internal Healthcare Quality Control Unit (HCQC) moved under the DVHA Program Integrity Unit (DVHA PI) giving it focus and independence from eligibility & enrollment operations. The staff assigned to DVHA PI HCQC increased from one to five dedicated full-time employees. Monthly case reviews (post completion) are conducted by DVHA PI HCQC for MAGI-based and Non-MAGI-based health care programs. Findings are sent to health care units on a weekly basis for review and corrective action. To identify errors at the front-line, DVHA Health Care Enrollment and Eligibility Unit (HAEEU) formally implemented an internal Quality Assurance unit as of 1/5/2018. The DVHA HAEEU Quality Assurance (HAEEU QA) unit reviews cases prior to approval to ensure that the documentation reported by individuals is properly validated to support the accuracy of the eligibility determination. These case reviews occur on a weekly, bi-weekly and monthly cadence, based on the eligibility worker's performance. The DVHA PI HCQC and DVHA HAEEU QA Units work closely to validate findings and ensure corrective actions include any necessary change to business processes and training. The efforts of this collaboration are expected to decrease errors and findings. Further, in addition to the aforementioned enhanced proactive quality control measures, DVHA PI HCQC will monitor the effectiveness of its quality control program through dashboard reporting (e.g. number of cases reviewed; number of correct cases; number of cases needing corrective action; number of resolved cases; etc.).

Scheduled Completion Date of Corrective Action Plan

- A. June 30, 2018: Security audit of the ACCESS system to be completed.
June 30, 2018: Internal IT audit and security procedures to be in place and operating.

- B-F. September 28, 2017: DVHA PI HCQC in place and functioning.
January 1, 2018: DVHA PI HCQC Dashboard Reporting implemented.
January 5, 2018: DVHA HAEEU QA in place and functioning.

Contact for Corrective Action Plan

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Finding 2017-028

U.S. Department of Health and Human Services

Program Name and CFDA Number

Medicaid Cluster

State Medicaid Fraud Control Units (CFDA #93.775)

State Survey and Certification of Health Care Providers and Suppliers (CFDA #93.777)

Medical Assistance Program (CFDA #93.778)

Recommendation

We recommend that the State review its policies and procedures over ADP security review and implement procedures to help ensure that all reviews are performed timely and are properly documented.

Corrective Action Plan

Condition A: The Agency of Digital Services (ADS) staff supporting the Department of Children and Families (DCF) has identified the need for further refining its Internal Security and Audit Procedures to remain in compliance with National Institute of Standards and Technology (NIST), Internal Revenue Service (IRS), Federal 45 CFR, and other associated regulations. To address the lack of IT Security Policy and Plans, the State has entered into a contract with a Janus Software, Inc. (Janus), a third-party organization specializing in the IT Audit and Security controls of mainframe applications. Janus will be executing a security audit of the ACCESS system and working with the State to develop proper Internal IT Audit and Security Procedures.

Conditions B and C: The DVHA IT security team and IT management has developed a process by which Service Organization Control (SOC) reports can be reviewed and documented in a complete and timely manner. A template for recording a SOC report review and response has been developed by ADS security and DVHA audit team members. The template considers all key elements of the SOC report review including user control considerations (UCCs) and resolution of any audit testing exceptions cited in the SOC report. The IT Manager will initiate this template upon receipt of a SOC report from the contractor as the report is submitted to ADS Security. The IT Manager will ensure a complete and knowledgeable review of UCCs by routing the SOC report to the appropriate members of departmental management as needed. The template will also be used by the ADS IT Security Analyst in all security reviews to record and track findings and response actions.

The IT Manager facilitates all security actions and discussions taken with the contractor within routine periodic operations meetings (quarterly with DXC, within weekly Ops meetings with CHC). The IT Security Analyst will direct the actions taken and results to the point of remediation within these meetings. These action items will be recorded via the template but are also recorded via any associated Plan of Action and Milestones (POAMs) used in these security meetings and meeting notes.

Scheduled Completion Date of Corrective Action Plan

- A. June 30, 2018: Security audit of the ACCESS system to be completed.
June 30, 2018: Internal IT audit and security procedures to be in place and operating.

B&C: March 1, 2018: SOC report review process to be in place and operating.

Contact for Corrective Action Plan

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Finding 2017-029

U.S. Department of Homeland Security

Program Name and CFDA Number

Homeland Security Grant Program (CFDA #97.067)

Recommendation

We recommend that the Department, as part of its ongoing corrective action plan, implement procedures to ensure that a full reconciliation of the asset database is completed and all variances identified are identified, tracked and adjusted for on a timely basis.

Corrective Action Plan

As stated in the *Views of Responsible Officials*, the Department of Public Safety (the Department) disagrees with this finding and believes this finding was corrected as of January 2017. The Department implemented a new comprehensive Asset Management policy and procedures in December of 2016, named "Asset Custodians" for all divisions and locations and provided training in January of 2017. The Department considers its FY2016 Corrective Action Plan to have been completed in January of 2017 after completion of Custodian training. The Department is in the process of wrapping up the final reconciliation of a recent mid-year physical inventory as per its newly implemented procedures.

Scheduled Completion Date of Corrective Action Plan

Completed January 2017

Contact for Corrective Action Plan

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