Report to the Legislative Committees on Appropriations and Human Services

Executive Compensation at the Designated Agencies
Mission Statement

The mission of the Vermont State Auditor’s Office is to hold government accountable. This means ensuring taxpayer funds are used effectively and efficiently, and that we foster the prevention of waste, fraud, and abuse.

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Non-Audit Inquiry

This is a non-audit report. A non-audit report is a tool used to inform citizens and management of issues that may need attention. It is not an audit and is not conducted under generally accepted government auditing standards. A non-audit report has a substantially smaller scope of work than an audit. Therefore, its conclusions are more limited, and it does not contain recommendations. Instead, the report includes information and possible risk-mitigation strategies relevant to the entity that is the object of the inquiry.
Introduction

In March 2015, the Vermont State Auditor’s Office initiated an inquiry of executive officer compensation at Vermont’s 11 Designated Agencies (DAs). The DAs are nonprofits that provide services to adults with mental illness, children with emotional disturbances, and individuals with developmental disabilities. DAs are also responsible for providing emergency mental health services and operating residential facilities.

The State, in accordance with statute, contracts with the DAs to provide these services in designated areas across Vermont.1 In Fiscal Year (FY) 2013, the State paid the DAs a total of $302 million through programs run by the Department of Mental Health and the Department of Disabilities, Aging and Independent Living.2

We pursued this inquiry after hearing numerous concerns from legislators and the public about executive officer compensation at the DAs. The version of the omnibus appropriations bill that the House passed this legislative session includes a provision that calls for an Agency of Human Services review of executive compensation at the DAs and Specialized Service Agencies – agencies that are similar in nature to the DAs.3

What catalyzed this concern was a $650,000 retirement package for the former CEO of Health Care and Rehabilitation Services (HCRS) – a Springfield DA that received $37 million in public funds in FY 2013. The new CEO of HCRS brought this matter to the attention of the legislature in February 2015.4

While this news was a surprise to many, the State received annual audit reports with this information over a four-year period leading up to the retirement of HCRS’ former CEO. The audited financial statements that HCRS submitted in the first quarter of 2011 informed the State of a $150,000 expense for the CEO’s retirement package.5 The audited statements for the following year informed the State that the agency was increasing the amount of the retirement package for its CEO to a total of $450,000.6 Then, in the first quarter of 2014, the independent audit made note that the HCRS board approved an additional $200,000 in deferred compensation for the former CEO,7 which brought the total to $650,000.8

In addition to that package, the former HCRS CEO was paid roughly $68,000 as a management consultant to the HCRS board for a six-month period after her retirement. When the term of the

1 See: 18 V.S.A. §8907(a).
3 See: H.490 Sec. E.300.1 Executive Compensation Review; Report.
4 Read about the issue at VTDigger.org and The Barre Montpelier Times Argus.
8 The independent auditors noted that HCRS’ former CEO withdrew the $450,000 and $24,888 in investment earnings over the course of calendar years 2012 and 2013.
board’s president expired in November 2014, the board voted to end the agreement with their former CEO at the close of the calendar year.\(^9\)

In an effort to ascertain whether other DAs employed similar compensation practices and to contextualize this activity, our office collected five years of executive compensation data from DAs and from U.S. Internal Revenue Service (IRS) documents. We tracked compensation data for the DA’s top administrators, which included all salaries and benefits reported to the IRS on Form 990. We focused only on CEO and CFO compensation, comparing their compensation to that of Vermont State agency secretaries and department commissioners, as well as to hospital CEOs and CFOs. We also compared DA CEO salaries with those of Vermont school superintendents and other occupations.\(^10\)

The central finding of the investigation is that the HCRS incident is an extreme outlier. Although there was a trend of compensation increases for certain executives prior to retirement, and some increases were dramatic, none of those incidents rose to the level of HCRS’ compensation package.

**CEO Compensation**

The average rise in total DA CEO compensation (salary and benefits) from 2010 to 2014 was 18%. When adjusted for inflation, the average rise in CEO compensation was 10%.\(^11\) The biggest increase during that period occurred from 2010 to 2012 when average CEO compensation rose 28%. This three-year hike was caused in large part by a 192%

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\(^9\) Information about HCRS contracting to its former CEO was provided by the CFO of HCRS.

\(^10\) We drew compensation data from available IRS 990 Forms for the DAs and relied on the DAs to provide additional compensation and salary data needed for this analysis. While this data was the most accurate we could expeditiously obtain, we question some of its reliability. In two instances, we identified errors on 990 Forms submitted to the IRS, and we encountered errors and inconsistencies in several DA submissions.

\(^11\) To adjust for inflation, we used the U.S. Bureau of Labor Statistics Northeast Consumer Price Index.
compensation increase for the CEO of HCRS. Her total compensation grew from $176,000 in 2010 to $514,000 in 2012 as a result of her retirement package.

During that same three-year period, the CEO of Howard Center – a DA located in Burlington, which received $70 million from the State in FY 2013 – enjoyed a 75% compensation increase, from $199,000 in 2010 to $348,000 in 2012. After that period, compensation for Howard Center’s CEO returned to roughly $200,000 (see Graph 5).

When HCRS was removed from the population of DA CEOs, the average five-year increase in compensation dropped from 18% to 6%, which was below the rate of inflation.

**CFO Compensation**

The average rise in CFO compensation from 2010 to 2014 was 6%. When adjusted for inflation, average CFO compensation dropped 2%.

In 2013, the year before he retired, Howard Center’s CFO experienced a large increase in compensation. This upswing was the primary driver behind the jump in average CFO compensation, from a low of $115,513 in 2011 to a high of $130,422 in 2013.

**Largest Executive Increases**

The five largest increases in executive compensation at the DAs are charted on Graph 5, and the top three appear to be driven by retirement packages. As noted above, the 192% increase in CEO compensation at HCRS between 2010 and 2012 is the single largest hike during this 2010 to 2014 window. The 123% increase in CEO compensation at HCRS over the course of the five years is the largest increase over the full period.
The 84% jump in compensation for Howard Center’s CFO between 2010 and 2013 is the second highest increase, and the 75% increase between 2010 and 2012 for Howard Center’s CEO is the third largest. All of these executives retired in 2013 or 2014, and the CEOs at HCRS and Howard Center were the highest compensated of all DA CEOs from 2012 to 2014.

From 2010 to 2014, the CEO at Upper Valley Services experienced a 40% compensation increase, and the CEO at Northwestern Counseling and Support Services enjoyed a 36% increase. During that five-year period, inflation rose by 8 percent.

Other noticeable upticks in compensation were in Addison and Washington Counties. The CEO of Counseling Service of Addison County saw his compensation grow by 32%, from 2010 to 2014, and the former CEO of Washington County Mental Health was given a 28% compensation hike between 2010 and 2012. The increase in compensation for Washington County Mental Health’s CEO occurred the year before he left and became the commissioner of the Vermont Department of Mental Health.

State Employee Comparison

To contextualize compensation for DA executives, we compared their total compensation with that of state agency secretaries and department commissioners. Graph 6 shows the range and average compensation packages for 2014. 12 The DA CEOs had the widest range of compensation and the highest average in 2014 – $183,000. State secretaries featured the smallest range and the second-highest average compensation of $158,000. State commissioners received an average compensation of $137,000. Without HCRS, average CEO compensation at the DAs was $162,000 in 2014.

12 While compensation for 10 of the 11 DAs is based on a calendar year, data for state officers and the remaining DA is based on a fiscal year. For Graph 6, state officer compensation covers the period of July 1, 2013 to June 30, 2014, while data for 10 of the DAs is for January 1, 2014 to December 31, 2014.
As Graph 7 shows, the average shift in compensation between 2010 and 2014 was highest for DA CEOs, second highest for state secretaries, and third highest for state commissioners. If HCRS were excluded, the average inflation-adjusted shift in compensation for DA CEOs would have fallen by 2%, rather than risen by almost 10% (see Graph 3).
Hospital Executive Comparison

Although Vermont’s 11 DAs and 14 community hospitals are distinctly different organizations, we chose to compare their executive compensation because they are all nonprofits that provide health care and receive public funding. It is important to note, however, that the scale of operations varies significantly across these organizations. We compared three years of compensation, from 2010 to 2012.13

The average compensation package for a hospital CEO in 2012 was more than twice that of a DA CEO, and the average compensation package for a hospital CFO was almost three times that of a DA CFO. But the wide variation in assets and revenues between these organizations makes for a poor comparison of their average compensation levels. For that reason, we focused on the percent-change in compensation.

Between 2010 and 2012, compensation for DA CEOs grew at a rate of 22% when adjusted for inflation, which was a greater rate of increase than that of compensation for hospital CEOs, CFOs, and DA CFOs. The average rate of change over this period for DA CEOs was boosted by large increases for the former HCRS and Howard Center CEOs (see Graph 5). Meanwhile, hospital CEO compensation was elevated by a 78% increase in inflation-adjusted compensation for UVM Medical Center’s CEO, whose annual compensation grew from roughly $800,000 in 2010 – when he was the interim CEO – to $1.5 million in 2012. This compensation level at the state’s largest hospital is roughly $1 million more than the second-highest compensated CEO for a Vermont hospital.

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13 For these DA-hospital analyses, we only drew from IRS 990 Forms. Hospitals were used as a reference point for this project and were not the focus of the inquiry.
Salaries, Superintendents, and Other Occupations

The largest increases in compensation for DA CEOs did not stem from salary hikes; they came in the form of retirement options, deferred compensation, and other types of reportable income.

Between 2010 and 2014, the average salary of a DA CEO rose 1% when adjusted for inflation, which was significantly less than their 10% average rise in total compensation for the period. The increase in average salary for a DA CEO was slightly higher than that of school superintendents, which remained flat between FY 2010 and FY 2014 when adjusted for inflation. The average DA CEO salary of $134,000 in 2014 was roughly 15% higher than the average Vermont superintendent salary, which was $116,000.

Looking across Vermont industries, DA CEOs earned a lower average salary in 2014 than the average salary of all CEOs. On average, a Vermont CEO earned $179,000 in 2014, and their salary grew 12% between 2010 and 2014 when adjusted for inflation.

Graph 9 shows how the shift in DA salaries compared to other occupations. The average salary level for these professions varied widely in 2014, from about $30,000 for social and human service assistants, who help clients and social workers, to almost $180,000 for CEOs.

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14 Superintendent data came from the Vermont Superintendents Association’s Annual Salary Survey. We drew only from salaries of full-time superintendents.

15 Data used for Vermont CEOs and other occupations came from the Vermont Department of Labor and the U.S. Bureau of Labor Statistics.

16 2014 data was not available for workers classified as “Healthcare Social Workers,” and large employment swings in counselors for mental health and substance abuse suggest that a coding change or other outside factor affected the reliability of this data for our purposes, and we therefore did not use it.
**Conclusion**

Although we identified numerous instances where DA executive compensation grew at a rate far exceeding inflation, the retirement package HCRS awarded its CEO was extreme when compared to the compensation of her counterparts. HCRS aside, average DA CEO compensation in 2014 was in line with that of state agency secretaries, and it dropped between 2010 and 2014 when adjusting for inflation, while compensation for state secretaries and commissioners grew. On average, DA CEOs were compensated less than hospital CEOs, and their salaries were less than the statewide CEO average.

Although the HCRS incident was surprising to many, the organization provided the Agency of Human Services with annual audited financial statements that contained information about the compensation arrangement approved by the HCRS board over several years.

If the State wishes to monitor the executive compensation of these organizations with which it regularly contracts, it could periodically request this information from the DAs in a format similar to that of Schedule J on IRS Form 990, which organizes compensation into easily accessible categories. The largest increases we spotlighted were not in salary but in other forms of compensation.