



**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, 2023, and the related notes to the financial statements, which collectively comprise the State's basic financial statements, and have issued our report thereon dated January 26, 2024. Our report includes a reference to other auditors who audited the financial statements of certain funds and component units of the State, which represent the indicated percentages of total assets and total revenues as described in our report on the State's financial statements and as presented in the table below. Additionally, 100% of the information disclosed in Note V-E was also audited by other auditors. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those other auditors.

| Opinion Unit  | Entity   | Percent of Opinion Unit's Total |                      |
|---|--|---------------------------------|----------------------|
|   |  | Assets                          | Revenues / Additions |
| <b>Governmental Activities</b>                        | Universal Service Fund   | 0.05%                           | 0.06%                |
| <b>Business-Type Activities</b>                       | State Lottery Fund; Energy Efficiency Utility Fund   | 12.82%                          | 54.48%               |
| <b>Special Fund</b>                                   | Universal Service Fund   | 0.66%                           | 1.22%                |
| <b>State Lottery Fund</b>                             | State Lottery Fund   | 100.00%                         | 100.00%              |
| <b>Aggregate Remaining Fund Information</b>           | Energy Efficiency Utility Fund   | 0.48%                           | 3.67%                |
| <b>Aggregate Discretely Presented Component Units</b> | University of Vermont and State Agricultural College; Vermont State Colleges; Vermont Housing Finance Agency; Vermont Economic Development Authority; Vermont Housing and Conservation Board; Vermont Veterans' Home | 75.29%                          | 93.16%               |

**Report on 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) as a basis for designing 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.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

We identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2023-001 and 2023-002, that we consider to be material weaknesses.

### ***Report on Compliance and Other Matters***

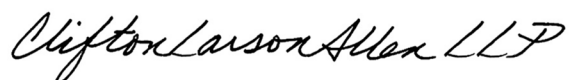
As part of obtaining reasonable assurance about whether the State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect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

### ***State of Vermont's Responses to Findings***

*Government Auditing Standards* requires the auditor to perform limited procedures on the State's responses to the findings identified in our audit and described in the accompanying schedule of findings and responses. The State's responses were not subjected to the other 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.



**CliftonLarsonAllen LLP**

Boston, Massachusetts  
January 26, 2024

**STATE OF VERMONT  
SCHEDULE OF FINDINGS AND RESPONSES  
JUNE 30, 2023**

**Finding 2023-001 – Financial Close and Reporting –Department of Labor**

***Type of Finding***

Material Weakness in Internal Control over Financial Reporting

***Condition***

We identified overstatements of unearned revenue and understatements of federal revenue of approximately \$7.7 million within VDOL's unadjusted trial balance.

We also identified that VDOL did not adopt and implement documented policies and procedures for month-end reconciliations of bank accounts in accordance with best practices prescribed by the Office of the State Treasurer.

***Criteria or Specific Requirement***

The Vermont Department of Labor (VDOL) is responsible for preparing the annual financial statements of the Unemployment Compensation Trust Fund in accordance with GAAP. The financial statements report the activity from the Fund's trial balance maintained by VDOL on a delegated accounting system separate from the statewide accounting system. The annual trial balances are adjusted by VDOL for accruals and reclassifications for presentation in accordance with accounting principles generally accepted in the United States of America (GAAP). The final GAAP financial statement is submitted to the Department of Finance and Management for inclusion in the statewide Annual Comprehensive Financial Report.

The Office of the State Treasurer requires that reconciliation procedures for each bank account are provided for review annually. In the absence of a policy, best practices require that the reconciliation should be available for review by the Financial Manager (or designee) within thirty (30) days of month-end.

***Effect***

The unadjusted trial balance of the Unemployment Compensation Trust Fund contained material misstatements of unearned revenue and federal revenues.

VDOL is not in compliance with the policies and procedures recommended by the State Treasurer's Office; which increases the risk of misstatements, fraud, or errors not being detected and corrected.

***Cause***

VDOL has not implemented the necessary internal controls to report the Unemployment Compensation Trust Fund in accordance with GAAP.

Reconciliations of VDOL's bank accounts were not performed in accordance with recommended policies established by the Office of the State Treasurer.

***Repeat Finding***

This finding is a repeat of a finding in the immediately prior year. The prior year finding number was 2022-002.

**STATE OF VERMONT  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
JUNE 30, 2023**

***Recommendation***

We recommend that policies and procedures over the year-end reconciliation and review of financial statement balances be strengthened to help ensure the balances are reported accurately and are adequately supported by source records.

We recommend that policies and procedures be implemented to ensure bank account reconciliations are performed in accordance with established policies and procedures. We also recommend sufficient documentation be maintained to support the performance of the reconciliations in accordance with said policies and procedures.

***Views of Responsible Officials and Planned Corrective Action***

The Department acknowledges and accepts this finding.

In March 2022, the Department lost both the unemployment insurance finance manager and the senior finance administrator within the cashier's unit of the Unemployment Insurance Division. In May of 2023 we lost our only remaining cashier's office full time staff member. In previous years, the Department relied on the expertise of our cashier's office staff and because of this shortfall we were not able to do this.

We have recently hired into both of the cashier's office full time staff positions.

The Department will review its procedures and internal controls and update as necessary to ensure that GAAP and best practice is utilized. We are in the process of evaluating our workflow and signing authority and review deadlines. In the process of finding staff replacements, we have conducted a tremendous amount of evaluation of our assigned duties, processes, workflow, training, and documentation. Not only in this role, but we are also undergoing a division and business unit wide analysis of our internal controls and workflow. We will be continuing these efforts.

The Department is also exploring options to determine whether additional staff can be cross trained on UI cashier's office duties as well as preparation of UI financial reporting to ensure the Department has the needed support moving forward so a loss of critical staff does not create a significant knowledge gap.

**STATE OF VERMONT**  
**SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)**  
**JUNE 30, 2023**

**Finding 2023-002 – Schedule of Expenditures of Federal Awards –Department of Finance and Management**

***Type of Finding***

Material Weakness in Internal Control over Financial Reporting

***Condition***

Adjustments to several departmental Forms ACFR-9 were detected because of our audit procedures over federal expenditures. The adjustments resulted in material changes to federal expenditures and amounts passed through to subrecipients reported on the Statewide Schedule of Expenditures of Federal Awards (SEFA).

It was also noted several departments did not submit the Form ACFR-9 and supporting general ledger detail by the August 31, 2023 deadline.

***Criteria or Specific Requirement***

Annually, all State departments expending federal awards are required to submit a Form ACFR-9 to the Department of Finance and Management. The instructions for submitting the Form ACFR-9 include procedures to reconcile the departments' record of federal expenditures in VISION to those published by the Department of Finance and Management in the annual VISION Reconciliation Expenditure Report. The Forms ACFR-9 were due to the Department of Finance and Management on August 31, 2023 for the year ended June 30, 2023.

***Effect***

Expenditures reported on the State's initial draft of the SEFA were overstated by approximately \$264 million. Amounts passed through to subrecipients reported on the initial draft SEFA were overstated by approximately \$90 million.

The adjustments were corrected by management at various points from September of 2023 through January of 2024 and required multiple quantitative reassessments resulting in additional major federal award programs to be audited as part of the Statewide 2023 Single Audit.

***Cause***

Internal controls are not in place to ensure federal expenditures reported by departments on Form ACFR-9 are properly reconciled to the VISION Reconciliation Expenditure Report, properly supported by general ledger details, and properly coded for subrecipients.

***Repeat Finding***

No.

***Recommendation***

We recommend the Department of Finance and Management revisit the Form ACFR-9 submission process and identify any opportunities to strengthen current practices. Such opportunities could include additional departmental training as well as additional reconciliation and review procedures that could be performed by the Department of Finance and Management prior to the submission of the SEFA to the external auditor.

**STATE OF VERMONT  
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)  
JUNE 30, 2023**

We recommend the Department of Finance and Management implement a proper accountability channel when departments do not submit Form ACFR-9 timely.

***Views of Responsible Officials and Planned Corrective Action***

The Department of Finance and Management (DF&M) agrees with the finding and will 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 as part of their ACFR-9 submission is complete and accurate. DF&M will provide additional guidance and training on the preparation of the ACFR-9 form to ensure agencies and departments are able to complete the form accurately. DF&M has made improvements in its reconciliation process for certain federal programs, and moving forward DF&M will work with agencies and departments to expand this reconciliation process to ensure the data provided is complete and accurate. DF&M will meet with selected departments and agencies to discuss their process for preparing the ACFR-9, and work with them to understand the root cause of the issues found and provide guidance to help them improve their ACFR-9 preparation.